

Nation's Business

USEFUL LOOK AHEAD

JANUARY 1965

BUSINESS & GOVERNMENT

Special five-part report on their changing roles

How to run a growing company **PAGE 68**

The truth about urban renewal **PAGE 31**
AN INTERVIEW WITH THE AUTHOR OF "THE FEDERAL BULLDOZER"

When inflation runs wild **PAGE 78**

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Executive Trends

- Use variety to interest workers
- Competition—major challenge in '65
- What your boss thinks of you

How would you feel if your boss called you in and announced he was going to put you in an entirely unfamiliar job for a week or two?

If you worked at Steelcraft Manufacturing Co. in Cincinnati, you wouldn't be surprised. Spot assignments are Steelcraft's way of stretching employee skills.

The company calls the method "job variety." General Manager Robert Levinson says, "It's the best form of training we know of."

Here's how it works: An office or shop employee is called in by the boss and told that he (or she) will spend a few days or weeks doing a completely new job. Draftsmen are sent on sales calls, typists are given one or two-day assignments as transportation clerks, factory hands are rushed to the offices of distant distributors to serve as trouble-shooters.

Workers given spot assignments are briefed before they tackle them. After the briefing they are strictly on their own.

"While we've done this for years, only recently have we fully recognized the program's value in upgrading people," reports Mr. Levinson. He says "job variety" has trimmed turnover, worked wonders for employee morale and aided management in determining the real potential of executives and rank-and-file employees.

One value of the system is that an employee never knows when he will be tapped for a spot job. "Expectancy keeps people alert," Mr. Levinson comments, "and the company has found that most people return from temporary assignments

with a new zest for their regular work."

The firm makes steel doors and frames and employs about 500 people. Mr. Levinson believes "job variety" is especially useful as a training aid for smaller businesses, where it can help take the load off the shoulders of a relatively small number of top managers. He adds: "Many companies are afraid to gamble with people the way we do. But experience has convinced us that the successes far exceed the failures."

• • •

Competition will keep lights burning late in many business offices this year.

Responses to a NATION'S BUSINESS survey confirm this.

Leading managers in industries as unlike as meat packing and electronics are worried about competitive pressures. Many state flatly that competition will be the biggest problem they face in 1965.

Example: The vice president for administration of a major steel concern anticipates headaches arising from "competition from competitors' new plants, from other materials and from foreign sources."

The specter of competition takes on a somewhat different shape, depending on who you are.

To textile manufacturers, imports make up the competitive challenge. Petroleum company officials worry over profit erosion caused by retail price wars. In some fields it is wholly a matter of competitive pricing, but in others—soap products, for instance—worry centers on

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N C R



1965

Long Distance at the turn of the year

This is the most appropriate time to thank your customers for their business. Why not telephone them—particularly those out of town? Your thoughtfulness will build goodwill and increase sales in the year ahead.



*Talk things over, get things done
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Nation's Business

January 1965 Vol. 53 No. 1

Published by the Chamber of Commerce of the United States
Washington, D.C.

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A new thrust in the U. S. economy, government and daily life will reshape your business, says a leading forecaster

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These are stages any company will pass to reach maturity; expert tells how to recognize strength and cope with crises

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Your money can be used for all manner of things, but here is one way that can involve both high risk and a low return

Nation's Business is published monthly at 1615 H St. N.W., Washington, D. C. 20006. Subscription rates: United States and possessions \$19.75 for three years; other countries \$10 a year. Printed in U.S.A. Second class postage paid at Washington, D. C., and at additional mailing offices. © 1964 by Nation's Business—the Chamber of Commerce of the United States. All rights reserved. Nation's Business is available by subscription only.

Editorial Headquarters—1615 H Street N. W., Washington, D. C. 20006

Advertising Headquarters—711 Third Avenue, New York, N. Y. 10017

Circulation Headquarters—38 South Dearborn Street, Chicago, Ill. 60603

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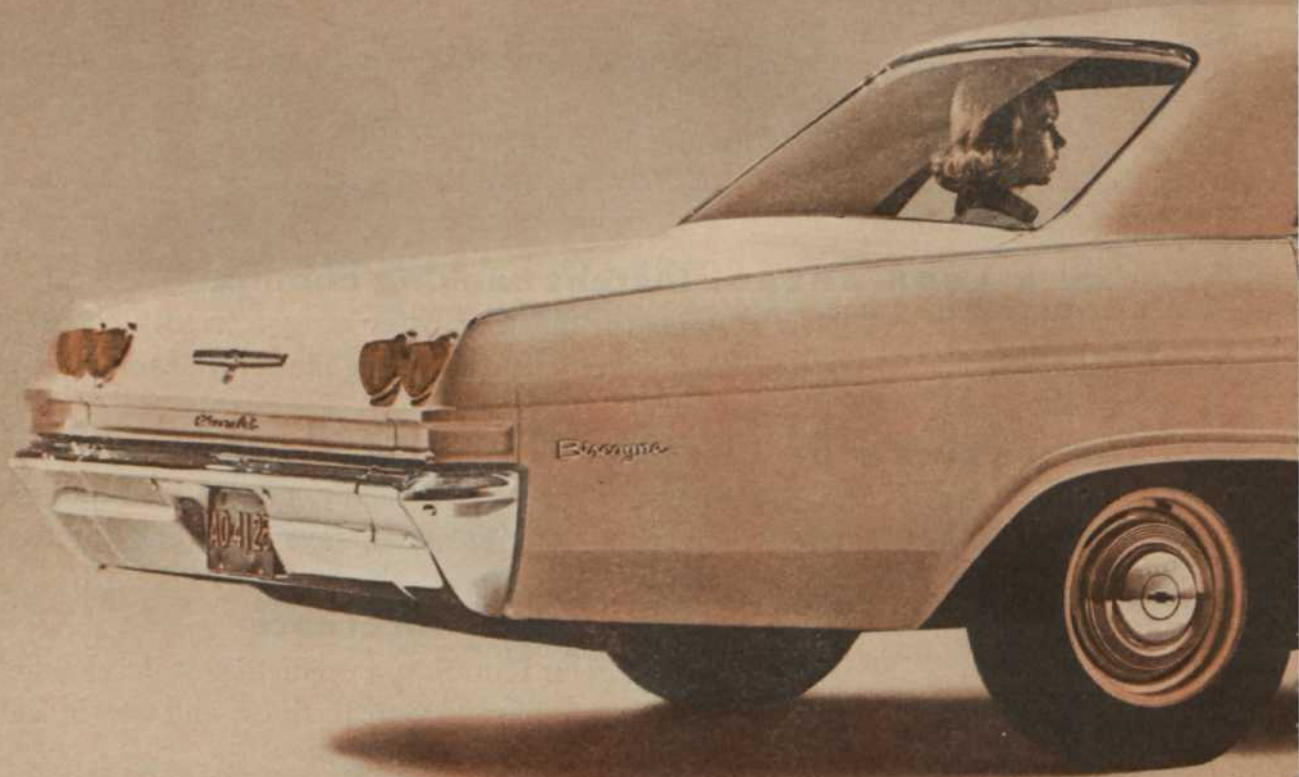
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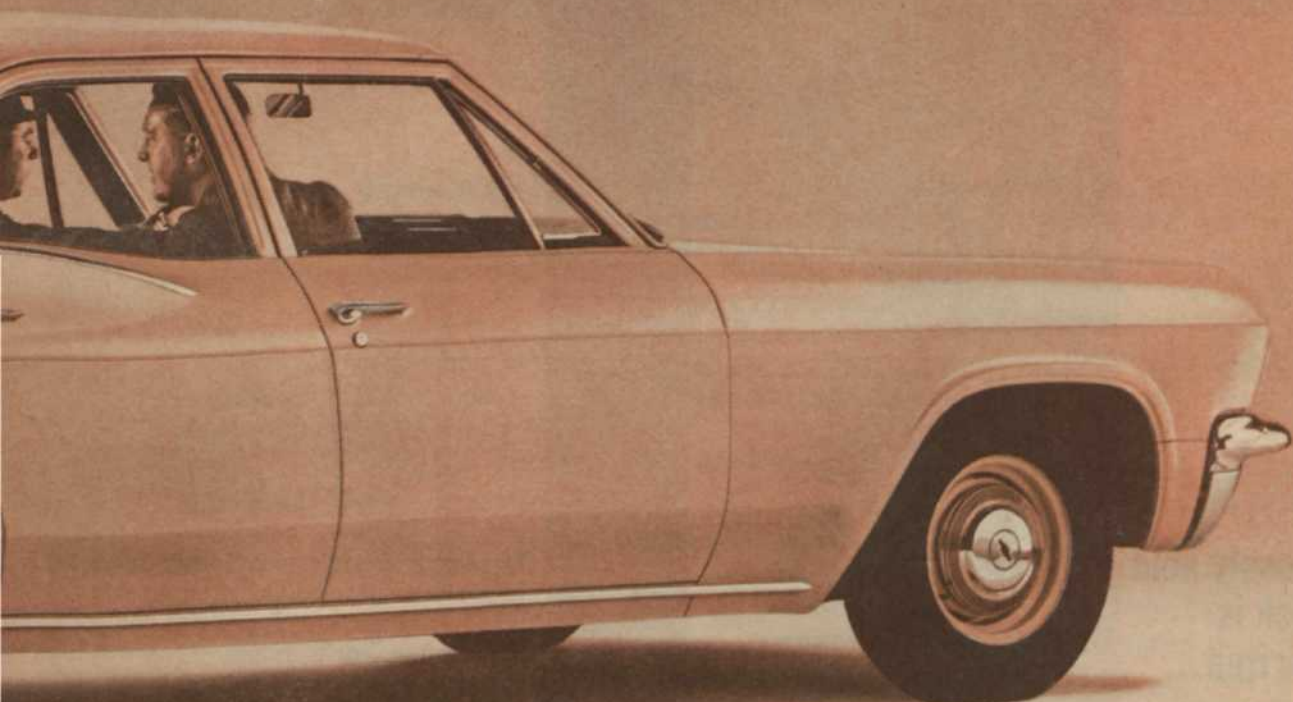
'65 CHEVROLETS

Low price, low upkeep,
high resale are what keep
them in business

CHEVROLET—It's hard to believe that anything that looks this graceful can be a businessman's workhorse. But the '65 Chevrolet offers plenty of muscle and solid performance. New tough Body by Fisher. New rugged Girder-Guard perimeter frame. Improved Full Coil suspension. And the wheels are spaced farther apart, both front and rear, for a more stable ride. You'll find three inches more shoulder room inside, too. But there's one Chevrolet feature that hasn't changed. High resale value.



Chevelle Deluxe 300 4-Door Sedan



Chevrolet Biscayne 4-Door Sedan

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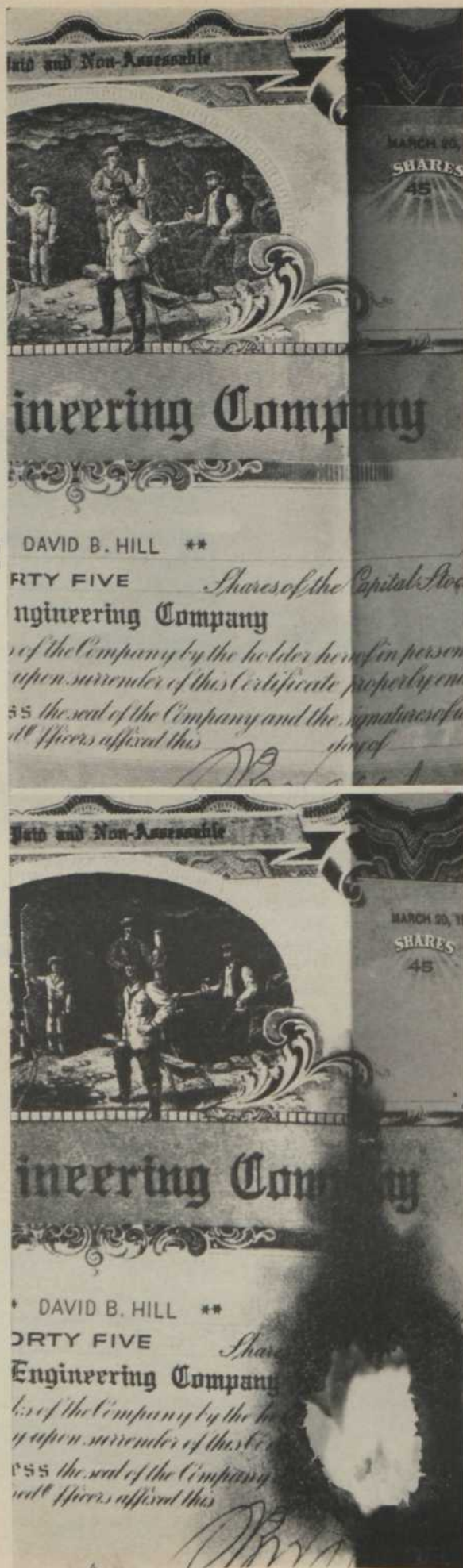
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Does your estate consist largely of stock in a close corporation? If so, problems could arise for both your heirs and your corporation. For example, if there's not enough cash in your estate for taxes and estate costs, some stock may have to be sold. But who will buy it, and for how much? Will outsiders move in and family control be lost?

In certain situations, the corporation itself can buy some of the stock on a tax-favored basis for the estate, thus providing the needed money. But this will require a cash surplus—and New York Life insurance owned by the corporation is the swift, sure way to provide it.

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WASHINGTON BUSINESS OUTLOOK

What goes on in Washington will have more impact on how you run your business.

Examples coming up for action soon:

Wages you pay will rise all up the line if minimum set by federal law is boosted.

Labor lobbyists press for \$2 an hour, all employees covered. Would settle for \$1.50 this year.

Your costs will zoom if Congress shortens legal workweek, requires double pay for overtime.

Your payroll taxes will rise, offsetting a probable reduction of excise taxes on retail goods, if social security benefits are raised. Rise sure to come whether compulsory health care for aged is made part of social security or financed through new taxes.

Here's preview of other important measures that involve your pocketbook.

Unions plan new strategy to force your employees to join a union—whether they want to or not.

What's planned is this:

Labor leaders demand that Congress eliminate a provision of federal law that permits states to have right-to-work laws.

But Congress balks at outright repeal, at least has until now—in face of union pressure that is strong and growing.

So union leaders will try to settle for repeal that exempts 20 states which already have laws of this kind.

Outcome is important to employers, whatever the size, kind of business or location of your plants.

Outright repeal—unions' real objective—would force hundreds of thousands of workers to join unions against their will.

It would stimulate unions' lagging efforts to organize more workers, particularly white-collar workers.

Not only would more employers be pressured into signing all-union-shop agreements—forcing all employees to join unions—but many employees would have to join under existing labor contracts with latent provisions that provide for compulsory union membership whenever laws permit.

Labor's compromise objective—that is, repeal with exemptions—would make it increasingly difficult to keep your state laws against compulsory unionism in force.

It would stop other states from enacting any new laws.

Then, not having to spend time and money on preventing the spread of these laws to additional states, unions could concentrate on repealing existing state laws one at a time.

Union men are optimistic about repeal, feel time is ripe, will work harder than ever for it.

They start with a four-day Washington rally this month as new congressional session gets under way. Goal is to get action as soon as possible.

"We've done some head counting in the House and feel we have the votes for repeal," says AFL-CIO President George Meany.

Quick action is deemed critical by labor lobbyists because of narrow margin for repeal they feel they have in House of Representatives. Margin could melt away, they fear, in fighting over earlier legislation.

Union estimates of solid votes for repeal in the House range from 212 to 221. Another 50 are marginal, according to unions.

Needed to assure passage with all members present and voting: 218.

Labor long has been confident it has votes needed for passage in the Senate.

Unions work to gain support among representatives of 20 states which already have

laws guaranteeing people freedom to hold a job without joining a union.

Legislators from these states hesitate to vote in Washington to nullify laws back home which constituents have approved.

Failing to win enough votes for full repeal, union leaders then will apply new strategy, shoot the works for limited repeal.

Administration strengthens unions' hand.

Secretary of Labor Willard Wirtz strongly advocates repeal.

Mr. Meany expects President to ask for it in accordance with his party's platform.

Only question, as far as Administration is concerned, seems to be timing—whether other legislative goals should have priority.

Defenders of voluntary unionism are equally confident, expect to win through strategy of their own.

They also seek support from representatives of 20 states which have laws against unionism. They point to growing public support.

According to studies by Opinion Research Corp., proportion of individuals surveyed who believe a worker should be allowed to keep

his job whether or not he belongs to a union increased from 48 per cent in 1956, to 62 per cent in 1962, to 67 per cent now.

Strategists plan last-ditch fight in Congress to stop any kind of repeal of Taft-Hartley labor law protection for states.

To help push back possible action, they press for other amendments unions oppose. They also feel delay of action will work in their favor for same reasons unionists feel it will hurt their cause.

If action can be held off until next Congress, two years from now, they are confident union efforts will surely fail.

Struggles continue in many states for repeal or enactment of right-to-work legislation.

Labor leaders believe repeal efforts are brightest:

In Indiana, Iowa, Utah—where unions gained supporters in state legislatures, where governors with labor views won election.

Unions also see a chance in Wyoming, where some gains were made in the legislature and a court test is pending on constitutionality of state statute because it outlaws hiring halls which federal statute permits.

Efforts to enact laws against forced unionism in Maine, Montana, Pennsylvania, Vermont may have been set back by election of more legislators on side of organized labor.

Prospects improve in some states.

New Mexico, for example.

There an organization to help support right-to-work legislation has just been incorporated.

Chances brighten, too, in California and Oregon, where conservatives gained strength in state legislatures.

Union lobbyists are fairly successful in blocking state actions outlawing forced unionism.

20 states with
right-to-work laws



WASHINGTON BUSINESS OUTLOOK

But it's a limited success.

Number of states with laws grows steadily. And unions find it very difficult to get any laws wiped off state books.

The last—and only—significant success was repeal of Louisiana's statute in '56. This was achieved only by means of a deal with farm groups to retain for farm workers alone the freedom to join or not to join a union.

Cost of money you borrow from your local bank is affected by massive federal debt.

As debt grows, Uncle Sam also competes for available funds.

Cost of maintaining federal debt climbs toward \$1 billion a month.

It'll reach that level soon.

Growing federal debt pushes interest cost higher



Here's key number that affects your pocketbook: \$88 billion.

When federal budget for fiscal year ahead goes to Congress this month, spending total will be much higher.

But this, with interest on public debt left out, is ceiling President tries to impose on what bureaus spend for all main government programs—defense, space, farms, procurement, pay for federal employees, subsidies,

welfare doles of many kinds. But that's not all.

Social security programs, highway and other spending—paid for out of earmarked taxes—are in excess of President's budget by billions.

Grand total, all things included: Well above \$130 billion for year ahead.

For nation as a whole, that means Uncle Sam takes more than 20 cents—one way or another—out of every dollar that business and industry can produce in goods and services.

If you earn \$25,000 taxable income, your take-home pay for year ahead goes up roughly \$350.

That's estimated difference in the federal taxes you'll owe on coming year's earnings as compared with last year's.

If you're in \$15,000 bracket, your pay goes up approximately \$150.

Estimates are based on taxpayer with wife, two children, average deductions.

There's disappointment ahead for millions of taxpayers who usually get refunds.

It stems from underwithholding, despite fact that many employees asked their companies to keep out more taxes than standard 14 per cent which went into force after last year's tax cuts.

Usually a good many people get taxes back as result of overwithholding or overpayment. Average refund: Somewhere around \$140 for millions of taxpayers during past couple of years, adding up to about \$5 billion or so in all.

Now it's different. Mr. Average Taxpayer owes money and additional payments may equal past year's refunds.

Note: Tax bureau gears up in expectation that more Americans will get tax returns ready earlier than usual. Reason is curiosity, as taxpayers want to know whether they owe extra and how much.

Health care cost figures disputed

YOUR NOVEMBER ARTICLE, "Federal Health Estimates—300% Wrong," based on an analysis by Dr. Barkev S. Sanders, contains many instances of erroneous thinking and misuse of the statistics presented.

I shall bring up only a few of the most important points.

As to hospitalization costs, Dr. Sanders asserts that my cost estimates are in error because he derives a per capita expenditure of \$139 for 1966, based on projections of total outlays in 1960, as against \$72 that he derives from my cost estimates.

The latter figure should be \$95, since (1) he incorrectly divided the estimated benefit outgo by total aged persons in the country, instead of by the aged persons eligible for benefits due to their having OASDI insured status, and (2) he took the proportion of total outgo that relates to other-than-hospitalization benefits to be the same as in the long-range estimate, whereas in the early years it will be considerably lower.

His per capita figure based on total outlays is not comparable with mine, because it makes no allowance for the deductible and maximum duration provisions; his figure should properly be \$113. Then, there is only a 20 per cent difference, instead of almost 100 per cent as he indicates. Much of this 20 per cent difference is accounted for by other factors.

In regard to the cost for skilled nursing home care benefits, Dr. Sanders gives figures about eight times mine. His estimate is based on data on total expenditures for all aged persons in such homes and does not recognize that the proposal does not include such broad care, much of which is domiciliary and custodial. Under the proposal, such services are furnished only following transfer from a hospital when the nursing facility is hospital-affiliated and when necessary for con-

tinued medical treatment (and for at most 180 days).

Dr. Sanders asserts that my estimates are constructed to show a cost as a percentage of taxable payroll that will be much above one half of one per cent regardless of the proposal. This is a gross misstatement, because my latest estimates (for the proposal passed by the Senate) gave a cost of .76% of taxable payroll.

[Editor's Note: *This latest estimate was made after Dr. Sander's analysis was completed.*]

Dr. Sanders deprecates my long-range cost estimates by quoting the figures in terms of dollars. A proper reading of the cost reports makes it clear that these figures are prepared to develop costs relative to taxable payroll, which are the significant cost figures. As such, they can properly be based on the assumption that both wages and hospital costs do not rise over the long-range future. Moreover, the reports go into considerable detail to indicate the important cost effects of rising wage and hospital cost trends.

• • •

Dr. Sanders states that the British National Health Service has cost far more than originally estimated—and increasingly so over the years. The actual experience for the first full year of operation was three times the original estimate, made eight years previous, but these figures are not comparable because of changes in the size of the population protected and in the general price level and the inclusion of additional benefits not contemplated initially.

Although the cost in monetary terms rose by almost 70 per cent in the first decade, the real increase—after taking into account rises in price levels and population—was under 10 per cent. Furthermore, the costs expressed in terms of gross national product have been stable over the entire period (at a little less than four per cent).

Dr. Sanders examines the Canadian hospitalization plan experience in its five years and finds "fantastically" rising costs. His figures would seem to indicate that current costs are from two and a half to 10 times what they were before the program began. The statistical error is that he has used partial years as the base period. For example, the jump in the index for Ontario (from 100 in 1959 to 547 in 1960) results largely from the 1959 data being based on only three months of operation.

Conditions in Canada—particularly in rural provinces such as Saskatchewan—are considerably different than in the U. S. For a number of years, hospital utilization (days per capita) has been rising in Canada—both before and after the government program—unlike in the U. S., where the trend has been more level. Even so, utilization in Canada did not increase "fantastically" after the government plan began—a rise of only six per cent between 1958 and 1961.

The article not only questions the validity of my cost estimates, but also raises doubts about my professional integrity—for example, stating "the Social Security Administration has been concealing the truth by means of its actuarial estimates."

I feel constrained to say that this is the first time in the 30 years of my actuarial career that any question such as this has been raised in a responsible publication. Further, I well recognize that any estimates in this new field are subject to a considerable degree of variation and that competent actuaries, by making reasonable alternative assumptions, can obtain different results (although, by no means, four times as high as my estimate).

ROBERT J. MYERS
Chief actuary
Social Security Administration
Washington, D. C.

► Rep. Wilbur D. Mills, chairman of the House Ways and Means Committee, which considers social security health care legislation, said recently:

"The experience which the Committee . . . has had scrutinizing this problem has shown that every estimate made thus far by the Department of HEW (which encompasses the Social Security Administration) as to the cost of this proposal has been unrealistically low."

I enjoyed reading "Federal Health Estimates—300% Wrong." Every Congressman and the Sena-



Top management men can't afford to waste their time...can you?

SUCCESS always has — always will — demand its price.

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While there is often a deceptive sense of urgency about day-to-day detailed tasks in any business, the only real progress comes from *planning ahead*. Few businessmen, unfortunately, have the capacity to handle this dual job effectively.

How does this affect the careers of men in their 20's, 30's, and 40's?

It means that knowledge and ideas are more essential than ever. That age, experience, and seniority lose their meaning in an economy where the man who can do the job most efficiently gets the job.

Clearly, the answer to a rapid ascent in business today springs largely from intense training in the fundamentals of its major divisions. The application of knowledge, vision, and imagination are sure shortcuts to success in business.

Free booklet for ambitious men

If you agree with this — even though lack of space has forced us to simplify the problem — the Institute will gladly send you a free copy of *"Forging Ahead in Business,"* an interesting booklet which describes its executive training program in some detail. While there wouldn't be much point in requesting the booklet unless you are interested in self-improvement, it might give you a new slant on your future plans. The decision, of course, is entirely yours.

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Business opinion:

tors in all 50 states, as well as the doctors and various other groups who are fighting socialized medicine, should have a reprint.

RAY EVERS, M. D.
Andalusia, Ala.

Taxpayers take note

I appreciate the many wonderful articles in your magazine on business, legislation, etc., and in particular the one titled, "There Ought to Be a Law" [November].

AREL W. BERRIER
Berrier Sales Co.
San Francisco

Want to buy American

Visiting in Europe I had the opportunity to address the Purchasing Officers' Association of Great Britain. Questions stressed that American companies generally must not be interested in export business, since the export divisions of American companies are treated by the parent company as just another customer or distributor who must wait his turn or fight for material before it can make shipments to or keep promises made to importers.

I assured them that American businessmen did want foreign business and that possibly it merely appeared that the export division was getting a short share of the production; that in this rising market, delivery dates are extending rapidly and they are probably the victims of this condition.

HAROLD A. BERRY
Past president
National Assn. of Purchasing
Agents
Chicago

In effect but ineffective

What ever happened in the Florida East Coast Railroad crisis? I have seen no reports for several months. You will surely have one grateful reader if you can update me on the situation.

IVAN E. BROWN
Corvallis, Ore.

► The strike of 11 nonoperating railroad brotherhoods, which will be two years old on Jan. 23, is still in effect but apparently not effective. Spokesmen for the Florida East Coast Railway Co. say it is providing full freight service, but has not carried mail since the strike began. The company has survived nine dynamitings and continuous picketing. Four union members were convicted and sentenced to jail last July in the dynamitings.



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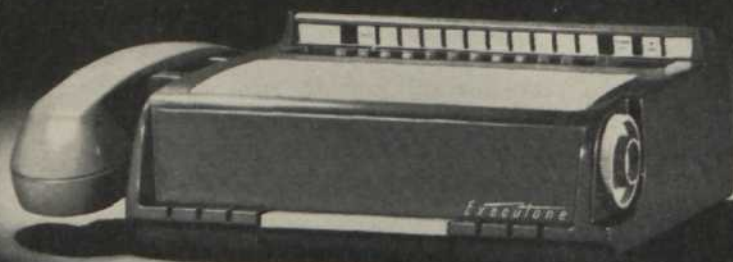
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ATLANTA BIRMINGHAM	10	3 hrs. 45 min.	1.85	2.10	2.45
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One of a series of messages depicting another growing service of The Greyhound Corporation.

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EXECUTIVE TRENDS

continued

the always present peril of a competitor coming into the market with a novel product or a better merchandising idea. Food processors and biscuit makers scramble for prime shelf exposure. Operators of passenger vessels hear of new foreign-flag ships entering the trade.

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Note: Whatever business you are in, 1965 is likely to find you putting greater emphasis than ever before on product and service quality. Most businessmen now recognize that quality can be the decisive factor.

• • •

It could be something you suspected all along, and now it's confirmed by experts. Your boss probably does have serious reservations about your ability.

This, at any rate, is what a University of California management study suggests. Responses from 215 line managers in four West Coast firms showed most of them doubted their subordinates' abilities to lead.

But it's not all bad news. The study disclosed that most of these same bosses look on their subordinates as relatively dependable, efficient and loyal.

• • •

People who keep close watch on such things expect no lessening of the demand for capable men in the next 12 months.

In fact, good openings should be plentiful in all but a few occupational categories, with demand only a little below last fall's peak.

One source of this judgment is Heidrick and Struggles, Chicago-based recruiters who since 1954 have reviewed and analyzed more than 200,000 openings in upper salary brackets.

They foresee continued strong demand in 1965 for men with general management skills. Also, current emphasis on bigger research and development budgets will bid up demand (and salaries) for executives in general engineering and science fields. Marketing managers also will be at a premium.

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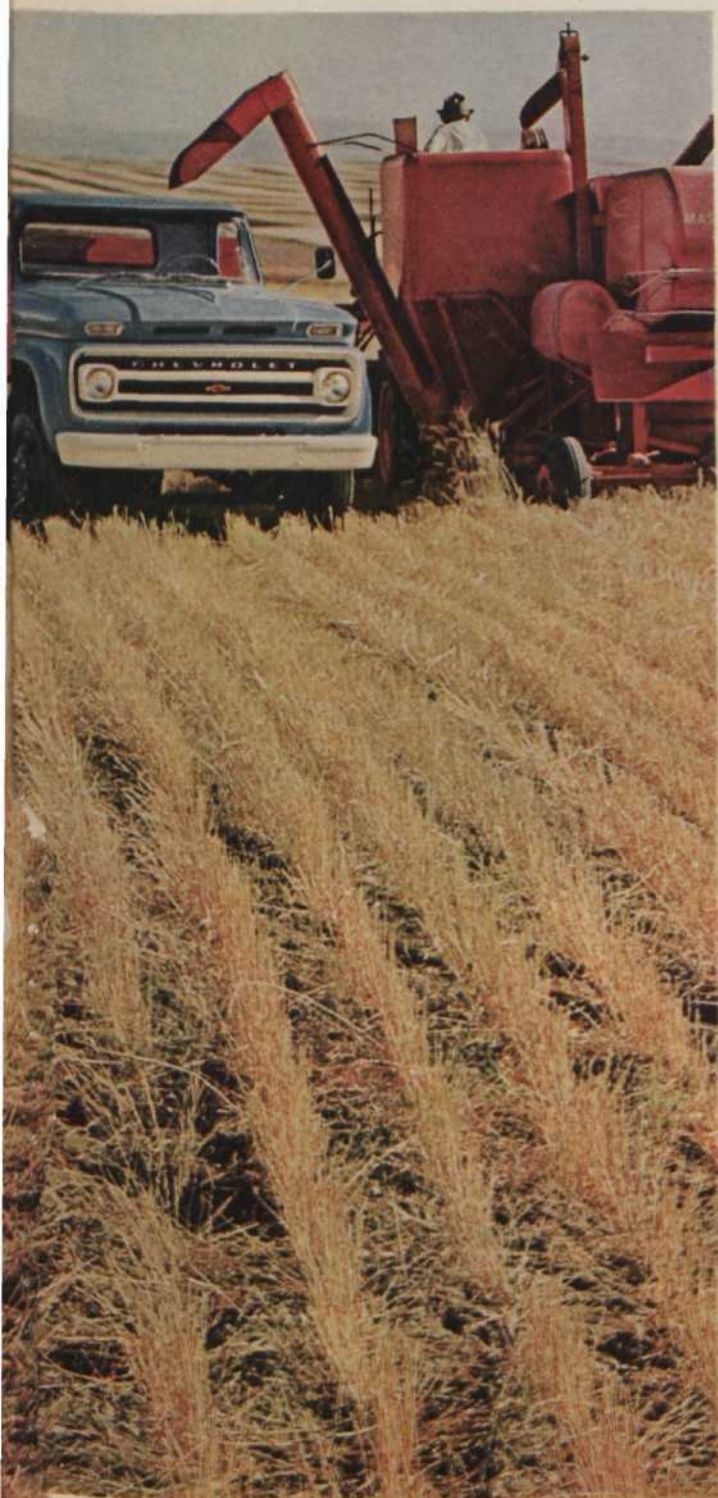


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1965 Chevrolet Fleetside pickup. In background, Series 60 medium-duty model with grain body.

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Your Chevrolet dealer will give you all the details when you see him about a new pickup for your job. He'll tell you about workpower—about how it makes a truck work harder.

Visit with him any time, about any type of truck, from light-duty delivery to big-tonnage tandem. . . . Chevrolet Division of General Motors, Detroit, Michigan.



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CUTTING COSTS IS OUR BUSINESS

EXECUTIVE TRENDS

continued

executive pay will continue upward in '65, although stock options and deferred compensation plans will not be as important as in the past.

• • •

This year an increasing number of young Americans will take our business know-how abroad.

Example: An estimated 550 students of business will hold jobs with foreign companies under a program sponsored by U. S. chapter of the International Association of Students in the Economic and Commercial Sciences. An equal number of foreign students will come here for temporary jobs with U. S. firms. That's a sharp rise from 1964.

U. S. chapter president Kenneth H. Phillips says most Americans go to Europe, although in the past year some went to Japan, Australia and Korea. One American student sent to France was put in charge of an entire division of a battery-making company.

• • •

Here's a quiz for businessmen.

Which is the best motivator—fear or reward?

Answer: neither.

Experts say that the most effective motivator is a positive, self-starting attitude. It's best because it raises the efficiency of both the boss and those who work for him.

"Research proves that a self-motivating attitude can multiply a manager's productivity," asserts Paul J. Meyer, president of Success Motivation Institute. He recommends five steps for executives interested in better motivating themselves and their employees:

1. Pinpoint each specific work goal, and dedicate yourself unswervingly to its achievement.
2. Make a plan to reach your goal. Then stick to an hourly, daily and monthly timetable.
3. Keep the payoff constantly in mind. This will make you and your workers success-conscious.
4. Don't let thoughts of defeat slow you down. Your attitude should be one of "can't lose," although you should be realistic about your strong and weak points.
5. Develop a fierce satisfaction and pride in your ability to surmount difficulties. Determination to achieve your goals will make you welcome rather than fear roadblocks. It will replace doubts with confidence.

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Air shippers: There's a new freighter in your future

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ting handling costs and loading time to the bone... with the promise of lower ton-mile costs through greater efficiency.

Right now, the Air Force has priority on this cargo giant. As the C-141 StarLifter, it is in full production to double the nation's military airlift

capacity. But the commercial version has just been FAA-certified so that industry may also benefit from the first jet transport designed, without compromise, for air cargo. Lockheed-Georgia Co., Marietta, Ga.: A Division of Lockheed Aircraft Corporation.

Lockheed StarLifter

Home town voices ring louder than LBJ's

BY PETER LISAGOR

DURING the campaign, President Johnson took exception privately to a published comment that if he were to win by too great a plurality, it might tend to have an inflationary effect upon his ego. He was understandably aggrieved by the remark, and insisted to friends that, in fact, the exact reverse was true: A man could only be humbled by a ringing mandate because it dramatized what an awesome responsibility he carried.

No student of the President's temperament doubts that he has managed to overcome any lingering burden of humility as a result of his landslide victory. And few resident observers would argue with the fact that, humble or exalted, he approaches the Eighty-ninth Congress with considerable authority. A good share of the freshman Democrats obviously rode in on the Johnson tide and feels a sense of obligation to him, at least at the outset of the session.

At the same time, there is the view of many here that the new Congress is unlikely to roll over and play dead for any and all of Mr. Johnson's program.

One can only guess at the eventual character of this Congress. But one thing about it is plain: Many of those elected in the Democratic sweep must consider themselves marginal members of the House, for they came from traditionally Republican districts. The question therefore on which congressional experts are presently divided is how do these members play it. Do they say to themselves, "Well, this may be a one-shot affair, and we've got little to lose. So let's go all out for a liberal Democratic program and let the devil take the hindmost in 1966"? Or do they say, "Look, this isn't a bad job and if we don't breathe too much fire, play it cautiously, accede to the demands and pressures of our constituencies, we might be able to make a career out of it"?

The President, a creature of the Congress and one of the fabled practitioners of the art of survival in that body, might well understand the latter group and not press unduly hard, according to some congres-

Peter Lisagor is White House correspondent for the Chicago Daily News.



Even FDR's 1936 landslide didn't assure legislative success. LBJ knows this and will move cautiously.



sional observers. What would worry Mr. Johnson more would be the first group, joining forces with veteran liberals in the House to push him in directions he prefers not to go. Apparently anticipating pressures from the left, he already has ruled out what he calls "any reckless, dangerous, novel or unique course."

Moreover, despite brave talk and fire-snorting behavior on the part of some innovators and visionaries in the Congress, it is the President who remains "the Great Initiator." Rarely in recent years has the Congress initiated any major programs, either out of positive impulses on Capitol Hill or out of negative attitudes on the part of the Executive. Old-timers

TRENDS: WASHINGTON MOOD

can recall only two important pieces of legislation that originated in Congress, the Wagner Labor Relations Act in the 1930's and the Taft-Hartley Act in the 1940's. There have been attempts made to pass other legislation opposed by the Administration, notably including the Bricker Amendment during the Eisenhower years. But they have been beaten back. In short, the President proposes and Congress disposes, and it would be a weak Chief Executive indeed who allowed his prerogatives to wither in this respect.

There is no desire here to demean or diminish the impressiveness of Democratic gains, especially in the House. And by most yardsticks, the ideological cast is a liberal one, that is, inclined toward increased welfare legislation. The point is, however, that brakes do exist, not only in the fact that House members have to go back to their constituents for a report card two years hence.



Barring a major revolt or upheaval, the all-powerful committee chairmanships remain in the hands of conservative Southern Democrats, for the most part. Since all bills must grind through the committee process, this assures against any breakaway from the customary pattern of deliberation and, when the collective spirit moves it, of obstruction. Until now, at least, Mr. Johnson has had small patience with the advocates of congressional reform, believing that gifted leadership can make the present machinery work—as it worked when he was Senate majority leader, a fact he never tires of stressing.

Furthermore, lopsided majorities can prove to be unwieldy. If there were true party discipline, on the British order, for example, the Democrats would vote *en bloc* and Mr. Johnson could write his own ticket, as the saying goes. But in this diverse society, the Congress has many clients, and when presidential preferences run counter to the interests of those powerful clients outside of Washington, back in the home districts, the President, more often than not, finds himself forced to yield.

The experience in 1936 of President Johnson's political idol, Franklin D. Roosevelt, gives historical sustenance to the fact that large majorities do not always make automatic allies of the Congress. In that year, FDR carried every state but New Hampshire and Vermont and, until LBJ's own triumph last November, enjoyed the biggest plurality in history. The Congress was overwhelmingly Democratic, 334 to 89 in the House, 75 to 17 in the Senate, more top-heavy by far than the current Congress. And the bulk of the new Democrats came in on FDR's coattails.

It could hardly be said that Mr. Roosevelt was made humble by his mandate. For one of his first acts of that second term was to attempt to reorganize the Supreme Court to get more favorable treatment for his New Deal legislation. The scheme died on the Senate floor. With its back up, the Congress dealt setbacks to a wages and hours law and to a bill for reorganizing the Administration. FDR was openly

accused of trying to become a dictator, and his frantic spokesmen in Congress were quoted as saying, in effect, "For God's sake, don't send us any more controversial legislation!"

The Roosevelt program was so thoroughly bogged down in that Congress that when the 1938 elections rolled around, he desperately sought to purge several senators he regarded as anti-New Dealers. Almost all of them were re-elected. In that election, incidentally, the Republicans came roaring back from what many considered to be oblivion after the 1936 debacle, doubling their strength in the House and increasing their scant Senate platoon by eight. Although FDR could still claim a sizable Democratic majority in both branches of the Congress, he could no longer count on wide party support and his program came to a virtual halt until the war in Europe in 1939 restored his prestige and influence sufficiently to get what was left of the New Deal off dead center.

Parallels can be just as invidious as comparisons, and while President Johnson has a somewhat comparable majority in the Congress, it is hardly conceivable that he would take steps that would alienate Capitol Hill as FDR did. Compromise and conciliation, rather than contention, suit him best. And he is supposed to have antennae in his fingertips, warning him of legislative pitfalls and land mines.

His respect for the role of Congress was underscored at his first Cabinet meeting after the election. He urged upon each Cabinet officer the necessity for having the best possible liaison with Congress and suggested that the most competent congressional relations personnel be added to departmental staffs. He prides himself on being a good judge of those men responsible for keeping committee chairmen informed about what their executive agencies are doing and reasonably persuaded of the rightness of their course.

Many of his associates say that he will take nothing for granted. They note that as Senate majority leader, he often did better with slight majorities than when he had what appeared to be abundant troops.

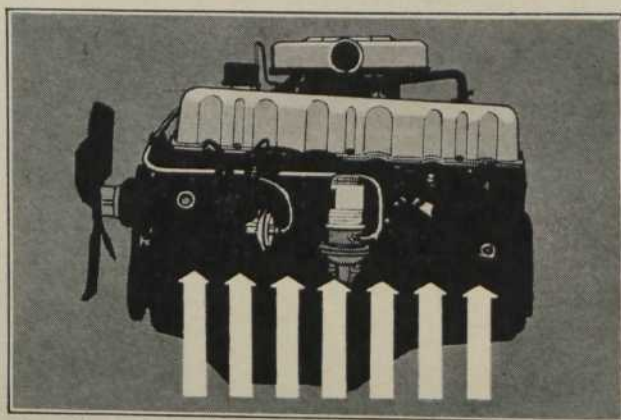


One of the curious facts about the much-discussed mandate is that many in Congress, veteran and newcomer alike, have trouble figuring out the precise nature of their instructions. An effort to discover what they have a mandate to do produces a shrug usually and such tentative answers as, "more of the same, I suppose." They do not perceive new barricades to be hurdled, new watersheds to be crossed. If the election did anything, judging from a consensus of the legislators, it rejected extreme actions and proposals.

The changes in the Senate were too few to alter appreciably that body, which has been relatively even-tempered and deliberative in the past few sessions. The only issue of passion that stirred it was civil rights, and an air of inevitability had a cooling effect on that debate. As for the House, a preliminary study of the newcomers shows no wild plotters among them capable of goading the President into a wayward course. A few Young Turks might try to break the traces, but the general expectation is that they will measure and weigh fairly even-handedly.



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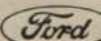
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Parties by any other name would solve no more

BY FELIX MORLEY

AS THE NEW Congress meets, some sentiment is apparent for changing the traditional party names to Liberal and Conservative. The subject is one deserving much closer examination than has been given.

One should recall, at the outset, that the Constitution does not authorize and indeed says nothing whatsoever about political parties. In fact, there was strong opposition among the Founding Fathers to any formal party organization. In his Farewell Address George Washington devoted several paragraphs to denouncing what he called "the baneful effects of the Spirit of Party," though admitting that it "unfortunately is inseparable from our nature." In Washington's words:

"It serves always to distract the public councils and enfeeble the public administration. It agitates the community with ill-founded jealousies and false alarms, kindles the animosity of one part against another, foment occasionally riot and insurrection. It opens the doors to foreign influence and corruption, which find a facilitated access to the government itself through the channels of party passions. . . ."

This conviction was so strong, when the Constitution was written, that the President himself was politically neutralized. The device to this end was to make his principal opponent vice president, by filling this office with the candidate who was runner-up in the electoral vote. If this system had not been revised, by the Twelfth Amendment, Barry Goldwater would be vice president of the United States this month.

There was good reason for this original mistrust of organized partisanship. During the Revolution many American Tories strongly opposed the goal of independence. After this was laboriously achieved, during the stormy years before the Constitution was drafted, other factional disputes threatened to destroy the infant republic. Above all else, unity was needed. And it may be remarked that there is also need for unity today.

Yet the organization of antagonistic parties was inherent in the very nature of the federal republic as

conceived at Philadelphia in 1787. By the delegation of substantial powers to the central government, with those not so specified reserved to the States, the question of which should have paramount authority in future issues was left unresolved. It will remain as long as the States have governments of their own.

So this nation has always had a natural political division between those who desire strong action by the central government in any problem and those who oppose its intervention in what may reasonably be regarded as local affairs. Around those contrasting viewpoints two parties quickly organized and, with



changes of name and emphasis, have been throughout in opposition.

The Civil War did not end the division. What it decided, apart from the elimination of slavery, was that a State does not possess the right of secession. This did not mean, to Lincoln or to anyone else, that all states rights were forfeited. Indeed, by negating the questionable right of secession, those rights unquestionable under the Constitution, such as local control of education, were in a sense reaffirmed. In recent years our major domestic controversies have centered on this issue of centralized vs. localized authority.

It is oversimplification to call this a cleavage be-

TRENDS: STATE OF THE NATION

tween liberal and conservative thinking. In the November election, to illustrate, the constitutional issue was largely obscured by the general anxiety over foreign policy. Senator Goldwater, in arguing that this should be more resolute, inevitably seemed to advocate that centralization of power which in other respects he criticized. President Johnson successfully gave the impression that he wants centralization only for humanitarian and not for belligerent ends. Though the one viewpoint did not echo the other, neither did they present a clear-cut choice.

As the parties re-form their lines for the congressional struggle, an old aphorism comes to mind. "Republicans do not believe in democracy and Democrats do not believe in the republic, yet between the two a democratic republic is successfully maintained."

Behind the wisecrack lurks a considerable measure of truth. The Republican Party has in general emphasized the structural importance of our federal system. The Democratic Party today thinks less of this than of the benefits that centralized government can provide. As long as both viewpoints are vigorously upheld, something of the value in each will be maintained.

But this in no small measure is due to the fact that the alignment between the parties is not precise. Many Democrats are aware of the virtues of home rule. Many Republicans regard welfare activities as a proper function of the central government. Party registration can never keep all the voters in line, and for that reason party organization can never keep all the congressmen of either party in line. Because the Democrats now have big majorities in both Houses it by no means follows that President Johnson will get whatever he asks from the coming session.

Conservatives, by their own definition, are those who believe in the free market and a minimum of governmental intervention. Liberals, apparently, are pretty much the opposite on both counts. And it is argued that people would respond to this division much more fervently than they do to the Republican and Democrat nomenclature. For this assumption there is singularly little evidence.

On the contrary, many who call themselves conservative favor tariff protection of certain industries from foreign competition. Many who call themselves liberals would remove governmental restrictions on trade with communist countries. Countless instances of similar ideological inconsistencies could be cited.

Indeed, there is probably no such thing as a consistently conservative or consistently liberal position, no matter how broadly the terms are defined. Much as people are consumers from one viewpoint and producers from another, so they are conservative on some issues, liberal on others. Many who are opposed to the welfare state will nevertheless accept its benefits quite happily. Those who are outright socialists will nevertheless cut every corner that will curtail their individual income tax.

In the American tradition the purpose of a political party is not to establish a nationally dominant philosophy, which is actually what the communists seek to do.

The more appealing American objective has always been a practical political mechanism competent to replace any administration, national or local, if it fails to govern reasonably well in the eyes of the sovereign voters.

To make this purpose effective requires two, but only two, parties—one to govern and the other to serve as "the loyal opposition," in the expressive English phrase. The philosophy of these two parties is secondary to their honesty and competence, assuming the freedom of the electorate to throw the rascals out whenever rascality has been demonstrated.

Even if our two historic parties could successfully be revamped as Conservative and Liberal on the national level, the possibility of doing that locally would be dim. In this great country conditions vary too much and dislike of regimentation is too strong. If a State political organization should favor deficit financing for better schools, but oppose federal aid to that end, would its position be conservative or liberal? To ask such questions is to show that a change of party names would of itself solve nothing.

Furthermore, it is doubtful that Americans as a whole desire to be labeled either conservative or liberal in the general connotations of these terms. Both are European tags, even though what is called liberal here is usually called socialistic in Europe. As that alteration itself indicates, alien political definitions do not adapt happily to our very different social background.

Conservatism, on the other hand, in every European country has always been associated with the interests of some originally privileged class—a territorial aristocracy, a state-supported church, an officer caste or a specially protected merchant group. Often special services have been rendered in recognition of this favored position, on the principle of *noblesse oblige*. But the group has nevertheless been privileged, in origin and tradition.

While there has been such group privilege in the United States, both the spirit and letter of the Constitution are opposed to it. Currently our great labor unions are about the only element to which the definition of a governmentally favored class can be applied. Yet their position is generally classified as liberal, suggesting that what is called by that name may easily become an undesirably conservative manifestation.

"What's in a name?" inquired Shakespeare's unfortunate heroine. It is a question which those who want to alter historic political labels have still to answer clearly.

The natural political division in the United States remains, as always, between those who would interpret the Constitution strictly, and those who would do so loosely. Titles chosen for those divergent positions are less important than better realization of what the distinction involves, for ourselves and posterity.



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The truth about urban renewal

An interview with the author
of "The Federal Bulldozer"

A MULTIBILLION-DOLLAR vision of politicians and social workers—which you helped pay for—still remains an illusion.

It is the federal urban renewal program, the Washington-run effort to revitalize the nation's cities.

A new exhaustive study has traced the extent of the failures of federal urban renewal since its inception in 1949.

The study was completed under a research grant at the Joint Center for Urban Studies of the Massachusetts Institute of Technology and Harvard University. It found that:

- ▶ Private construction is helping rebuild cities faster than slum deterioration occurs.
- ▶ Federal urban renewal has tended merely to shift slums from one part of a city to another.
- ▶ Billions more in tax money will have to be spent if the program is to be continued.
- ▶ More than 600,000 people have lost their homes and many of them have had to pay more to live elsewhere.
- ▶ The program has often been unprofitable for private developers.

Editors of NATION'S BUSINESS talked with the man who spent more than three years in intensive research and writing that produced this critical appraisal of the urban renewal program. He is Dr. Martin Anderson, who published his study in a new book, "The Federal Bulldozer."

"The Federal Bulldozer" has been cited as the first major analysis of the urban renewal program in all its aspects. Dr. Anderson is now assistant professor of finance at the Columbia University Graduate School of Business.

Federal funds totaling \$4 billion already have been allocated for urban renewal projects and an additional \$725 million was authorized by the past Congress.

The new Congress can anticipate requests for more money and expansion of the program.

The facts and data Dr. Anderson talks about come from the government—sometimes from previously unpublished information in the files of the Urban Renewal Administration.

In this interview, Dr. Anderson describes the extent of the failings and the reasons for them.

Dr. Anderson, advocates of the federal urban renewal program say it is eliminating slums, preventing the spread of blight and revitalizing cities. Does your research confirm that?

No. My research raises a considerable number of serious questions about all these statements. Take the first one, eliminating slums. I think it is much more likely that urban renewal simply shifts the slums.

And as far as preventing the spread of blight, I think that as it shifts slums it actually will (continued on page 84)

BUSINESS AND GOVERNMENT | **FRANK TALK FROM CORPORATE LEADERS**

Pervasive government touches every layer of business activity today. As regulator, buyer, planner, Uncle Sam can tilt the scale toward more control or more freedom. What is the right role of government? What does the future hold for government-business relationships? This issue of our times is held up for your scrutiny in the specially planned five-part report on the following pages.





PHOTOS: VYTAS VALAITIS; DAN MCCOY—BLACK STAR

To AUGUSTUS C. LONG, Texaco, Inc. board chairman, individual initiative not a government blueprint is proper means for stimulating sound growth

No responsibility of the government is greater than fiscal discipline, says Agriculturist ALLAN KLINE, because the U.S. has "an inflationary bias"



WALKER L. CISLER, Detroit Edison Company's board chairman, thinks business is now developing an economic statesmanship

BUSINESS AND GOVERNMENT

FRANK TALK FROM CORPORATE LEADERS

WHAT IS the proper role of the federal government in the economy?

This question—particularly when businessmen ask, “How does it affect my business?”—has been raised with increasing concern for years. Today it’s a prime issue.

Other industrial nations have had a taste of government planning. They’ve found more problems than solutions. We have tried central economic planning in wartime and experienced considerable government influence since.

Many in business and industry foresee an increasing involvement for Uncle Sam. Most of them don’t like it.

One of the country’s leading bankers, Herbert V. Prochnow, president of the First National Bank of Chicago, believes the role of government in our life is “the major domestic issue of this generation.”

“We have relied on individual initiative, not a government blueprint, to stimulate economic growth. The government should not intrude in areas where private enterprise has demonstrated that it can do a better job,” says Augustus C. Long, chairman of the board of Texaco, Inc.

Walker L. Cislér, chairman of the board, the Detroit Edison Co., tells NATION’S BUSINESS he thinks we are evolving a new economic statesmanship under which “business managers rather than government” should be relied on to “balance diverse economic interests.”

“The proper question,” says Ford Motor Co. Chairman Henry Ford II, “is not so much whether government should take a bigger or smaller role in our economy, but whether it is doing the right things or the wrong things.”

A number of leaders in key sectors of the economy were asked by the editor of NATION’S BUSINESS to state what they believe should be the proper functions for government to perform in our economy.

The business consensus seems to be that no device of government has yet been able to equal market competition in producing and distributing goods and services and enhancing the life and well-being of man.

Order not control

Certainly there can be no guarantee of freedom without some order. As Stuart T. Saunders, chair-

man of the Pennsylvania Railroad, notes: “In an economy as large and as complex as ours a reasonable amount of regulation by the federal government is inevitable and acceptable. The question is the degree of regulation, the point at which regulation becomes interference or control.”

Massive federal expenditures, from military procurement to relief checks for the poor, have their effect on investment, use of capacities and the purchasing power of consumers. So, too, do the broad federal loan and insurance programs. Many traditional government activities are beneficial to the economy. But as former Treasury Secretary Robert Anderson once put it: “We are essentially a nation of private, competitive enterprise. The course the economy will pursue is finally determined by the multitudes who engage in every phase of productive activity and consumption. . . . Measured against the scale of national earnings and national consumption, the government role is not a primary one.”

Federal spending adds up to only about 20 per cent of the gross national product, the total value of all U. S. goods and services. However, the course of the economy or important segments of it can be shaken by a single action on the highest levels of government.

The Employment Act of 1946 set forth a clear role for federal policy-making in economic affairs. The law said government should maintain maximum employment, production and purchasing power. What is sometimes forgotten by the bureaucrats is that the law also specified that this should be done “in a manner calculated to foster and promote free competitive enterprise. . . .”

The Act also created the President’s Council of Economic Advisers. In recent years, the Council reached its zenith of influence in federal economic decisions. The then Chairman Walter W. Heller convinced Presidents Kennedy and Johnson that daring policies were needed to achieve healthy economic growth and thereby reach the goals of maximum employment, production and buying power.

Our economic ills were diagnosed as chronic slack due to the drag of high taxes. Traditional political and economic thinking prohibited cutting taxes during good times and big budget deficits. But this was overcome and taxes (Continued on page 76)

Some government regulation is inevitable, notes STUART T. SAUNDERS (left) Pennsylvania Railroad board chairman; problems occur when “regulation becomes interference or control.” Ford Motor Company Chairman HENRY FORD II declares, “The best way to make an economy respond efficiently to consumer wants is to rely on the forces of profit-seeking, competition and supply and demand in the market place”

PHOTOS: WERNER WOLFF, ROBERT BENYAS-BLACK STAR



BUSINESS AND GOVERNMENT | NEW ROLE FOR REGULATORS

Ahead lies a promise of less harassment of business by Uncle Sam but also pressure for subtle new controls reaching into more firms

PROTESTING and digging in their heels, federal regulators of business are being dragged into the 1960's in ways likely to affect your firm, big or small.

For if the men who run this fourth branch of government don't adjust on their own, today's economic and political trends will soon force change upon them. So predict analysts of government-business relationships.

President Johnson is expected to give impetus to the development by putting the regulatory agencies on notice that he wants more cooperation, less harassment for business. So his appointments to fill vacancies on the regulatory bodies will be watched closely for evidence of his intent.

"I think the President is riding with the times if he really tries to eliminate regulatory harassment of business," declares an official of a New York business consulting firm.

The times, agree a number of experts who appraise federal regulators on a long-term basis, promise a relative decline in direct government control of business but a growing pressure for more indirect regulation—for instance, federal standards of quality or of employ-

ment conditions. A realistic appraisal of Uncle Sam's regulations can help you and other businessmen by eliminating requirements for outmoded reports, speeding government decisions where regulation remains, basing policy decisions on up-to-date economic grounds and generally freeing business in recognition of its role in keeping the nation prosperous.

The picture can have a dark side, however. The impact of this updating may not be a relaxation of regulation for all businessmen. Trend-watchers foresee pressures for more federal health and safety rules covering products of new technology which is often subsidized by government; new regulations by government—federal or regional—of air and water pollution, and moves to set new federal rules for today's living.

In general, they see considerable need for wide-ranging changes in present regulatory setups.

Regulations outgrown

"Most government regulation was developed to prevent abusive practices, protect safety, aid infant industries or bail an industry out of trouble," says Marver Bernstein,

professor of politics at Princeton University, a recognized authority on the workings of federal controllers. "I think in many areas, we've simply outgrown the situations that brought regulation."

Domestic air service is an example. Dr. Bernstein points out that much of today's regulation of rates, routes and other nonsafety aspects by the Civil Aeronautics Board could be eliminated. The CAB was designed originally to aid the fledgling air transport industry, he asserts.

But now the nation's route structure is pretty well set and airlines are strong enough to compete on rates and service without killing each other off or injuring the public's interest, he says.

The CAB isn't alone in facing the pressure of the times. Practically all of the other Big Seven independent regulatory agencies face the similar task of how to regulate in a changing world.

The Big Seven agencies make up one group of regulators. Besides the CAB, they are the Federal Communications Commission, the Federal Power Commission, the Federal Trade Commission, the Interstate Commerce Commission, the Nation-

al Labor Relations Board and the Securities and Exchange Commission.

Other regulators range from the Federal Maritime Commission through the Food and Drug Administration, the Agriculture Department and the semi-independent Federal Reserve Board, to the regulator which packs the biggest guns of all, the Antitrust Division of the Department of Justice.

In all, the government has more than 50 agencies of one kind or another plus 10 cabinet-level departments, each subdivided into myriad bureaus. The great majority of these divisions and subdivisions of government have a hand in regulating business in some manner. The Atomic Energy Commission licenses and regulates use of radioactive material in numerous civilian applications; the Interior Department rules on who can use public lands, even to the extent of whose electricity is carried on power lines crossing federal acreage; the new Civil Rights Act sets rules on whom a business must serve.

A major result of this welter of regulation, of course, is the tangle of red tape which engulfs both business and government—"bureaucratic annoyance," in the words of Bert Gottfried, chief economist for the Research Institute of America, Inc.

Something needs to be done "to expedite the administrative process before it grinds itself into an impossible quagmire of backlogs and delays," warns Sen. Edward V. Long, Missouri Democrat. He and Sen. Everett M. Dirksen, the Illinois Republican, are trying to do something about this tangle with a bill designed to speed up federal procedure on such cases as well as to give businessmen more rights in these proceedings.

Additional hope for streamlining the regulatory process lies in a new Administrative Conference of the U. S. This is a study group of bureaucrats and nongovernment regulatory experts. When finally organized, it is supposed to recommend further reforms in procedure.

As important as these administrative steps may be, a number of authorities on federal regulation and its impact on the economy see growing prospects for what they consider much more basic changes in the regulatory process.

Such a man is Mark S. Massell, a lawyer and economist now on the senior staff of the Brookings Institution, an influential study organization in Washington.

(continued on page 44)

LATEST TARGET: DOING BUSINESS WITH YOUR FRIENDS

DOING BUSINESS with your friends may get you into legal trouble in the future.

Government is waging a serious attack on this business practice. The issue is whether it's illegal or unethical for a company that buys from somebody to try also to sell to the other.

It's not, say businessmen, provided there is no arm-twisting, no "if you won't buy from me, I won't buy from you" and no distortion of competitive prices, quality and service. It depends on how it's done.

Yes it is, says the Federal Trade Commission, if either of the companies is big enough for any arm-twisting to distort competition.

The FTC is attacking situations where there's the mere possibility of abuse, whether it's exercised or not. It has gotten the Supreme Court to agree to pass on a test case.

While the case involves nothing more glamorous than onions and garlic, antitrust experts feel the outcome could have a far-reaching impact on business.

Solicitor General Archibald Cox notes that new and important questions about how the antitrust laws should apply to diversification mergers are at issue. Two cases involving General Motors Corp. and one involving General Dynamics Corp. are pending.

The case on which the Court will rule concerns Consolidated Foods Corp., a large and diversified processor and seller of foods based in Chicago, which acquired Gentry, Inc., a producer of dehydrated onion and garlic.

The FTC ruled that since Consolidated is a big buyer from companies that use garlic and onion, the merger gave Consolidated a club to force suppliers to buy their garlic and onion from Gentry.

Court upholds business

The Commission declared that the merger created a situation of reciprocal influence: "I will buy from you if you will buy from me," or the unspoken "If I buy from him, he will buy from me." But it found that, although there were some attempts to use Consolidated's buying power to promote Gentry's products, the latter's share of the dehydrated onion market increased by only seven per cent, and its share of the dehydrated garlic market actually declined 12 per cent between the merger in 1951 and 1958.

A federal court of appeals looked at the evidence of the postmerger period and declared: "Probability can best be gauged by what the past has taught." It reversed the FTC. This is the decision the Commission is appealing to the Supreme Court. Solicitor General Cox told the Supreme Court:

"In recent years many concerns with substantial buying power have systematized the application of that power in reciprocity programs administered with varying degrees of finesse. Indeed, recently, executives charged with handling reciprocity for their corporations formed an organization called the Trade Relations Association, which as of the end of 1963 included 113 members."

This charge of anticompetitive actions is assailed by Edwin D. Meade, director of commercial relations for the United States Rubber Co. and a governor of the Trade Relations Association, (continued on page 46)

BUSINESS AND GOVERNMENT

\$40 BILLION CUSTOMER WILL BUY MORE

Federal spending in nondefense areas will show greatest rise

ORDERS from many businesses' largest customer—the federal government—are expected to show a slow, steady rise over the next several years, mostly in the nondefense areas.

Hundreds of thousands of business firms will supply the government this year with about \$40 billion worth of goods and services ranging from complex space vehicles to paper clips. Additional billions of dollars will reach businessmen through purchases by the states paid for by federal grant programs. These larger sales, of course, also drive up federal spending and enlarge our budget deficit.

An upward creep of two or three per cent yearly in federal buying is predicted by government officials, barring any rise in world tension which would boost military spending.

The Department of Defense buys about 80 per cent of all the goods and services purchased by the government, and any fluctuation in military procurement sharply affects the total. The defense budget, which has dropped, is expected to stabilize near its present level.

Outside the field of defense, top executives at the General Services Administration—which handles a significant amount of procurement for the federal government—project an upward trend in expenditures for supplies and equipment which are in common use throughout the government. The GSA has a long

shopping list which includes such items as computers, automobiles and office furniture. Spending here is expected to rise from the current \$1.7 billion to \$2.3 billion a year by 1970 to service and supply the far-flung federal bureaucracy.

Public works increase

The GSA also constructs federal office buildings, courthouses and post offices and is the principal builder for other government agencies.

Spending for construction projects scattered through all 50 states is likely to rise from its present level of \$228 million to nearly \$300 million in the fiscal year beginning next July, and then drop back to about \$280 million during the following few years.

Other construction projects will constitute one of the faster-growing areas of federal spending for goods and services during the rest of the 1960's. Construction of power projects, flood control facilities and navigation improvements by the Bureau of Reclamation and the Army Corps of Engineers will move upward from its present level of more than \$1 billion a year. The Tennessee Valley Authority's construction program will continue, as will that of the Post Office Department.

Faster-than-normal growth is also expected in construction by the states which is paid for through federal grants. This includes the highway program and hospitals, air-

ports and sewage disposal facilities. It also includes school construction funds in areas of high federal employment and construction projects under the accelerated public works program. Nearly \$4.3 billion yearly is now spent in this way.

Despite the recent drop in the defense budget, Arthur W. Barber, deputy assistant secretary of defense for arms control, says: "The defense market is not going to disappear. It will continue to represent a significant market with new challenges and demands for new products."

"It is likely, however, that the products will change and those companies which will be most successful are those which are able to change, identify new needs and market potentials, and develop effective products at relatively low cost."

In one of the areas where the Defense Department buys its major hardware, spending for aircraft is expected to be between \$5.5 billion and \$6 billion yearly for the next several years. It declined in recent years as production of long-range bombers was phased out. Emphasis has turned to transport and tactical aircraft.

What kind of missiles

Spending for missiles will probably drop to around \$2.5 billion within the next several years as such programs as Polaris, Titan and Minuteman reach completion. This compares, for example, with the

estimated \$3.2 billion which will be spent during the current fiscal year.

Though the purchase of long-range strategic missiles is declining, the military will continue to buy other types of missiles in large quantities. Fighter aircraft and bombers are dependent upon both air-to-air and air-to-surface missiles. Air defense missiles also have considerable future potential.

Expenditures in the Navy's ship-building program have dropped back somewhat since the step-up which was made necessary by the

obsolescence of many World War II ships. Spending is expected to remain near the present level of \$2 billion yearly.

Dollars for equipping conventional forces, which have undergone an expansion in the past four years, will probably stay close to their present figure of \$1.6 billion yearly. A replacement cycle is beginning in which much of the older equipment will have to be supplanted by new weapons, vehicles and the like.

Officials of the National Aeronautics and Space Administration expect their budget to stay in a

range between this year's \$5.3 billion and around \$5.5 billion during the remaining years of the 1960's. Nearly 95 per cent of NASA's spending goes to private industry, most of it in research and development contracts.

This money will be spent on a continuation of programs now under way. The largest of these are Gemini, which will place two men into orbit around the earth, and Apollo, aimed at putting a man on the moon. Officials say they anticipate no major new projects in the next five years. **END**

Where federal buying's headed

Nondefense generally **UP**, across the board.

Common-use supplies—**UP** to \$2.3 billion from \$1.7 billion.

Federal buildings—**UP** to \$300 million from \$288 million.

Power and flood control projects—**UP** from \$1 billion.

Space generally **LEVEL**, slightly more than \$5 billion.

Defense generally **LEVEL**.

Aircraft—**LEVEL**, between \$5.5 billion and \$6 billion.

Ships—**LEVEL** at about \$2 billion.

Conventional forces—**LEVEL** at about \$1.6 billion.

Missiles—**DOWN** to \$2.5 billion from \$3.2 billion.



BUSINESS AND GOVERNMENT

WHO MAKES DECISIONS IN WASHINGTON

BY BROOKS HAYS

IT IS SAID there are two kinds of government people in Washington: Those who write letters they never sign, and those who sign letters they never write.

I have been in both roles.

This is, of course, an oversimplification of the complex process of governmental decision-making, which often demands not only compromise but cooperation and coordination by people on various levels and between different branches of the government.

I have been in politics for 42 years and have been rather substantially involved in the national government most of this period, serving in both the legislative and executive departments.

During these years, decision-making powers in Washington have expanded immeasurably in number, complexity and effect. Undoubtedly this trend will continue.

Among the momentous decisions being made today in Washington are those involving the leadership and effectiveness of the highest offi-

ces of the executive branch. President Johnson's new cabinet and sub-cabinet officials will be formulating the policies and interpreting the laws which will affect all our lives and many of the decisions you will make in your business.

The final figures on the national budget are now being set by the fiscal experts, and what is being recommended will affect new and old government programs for years.

This month, when Congress assembles, it will begin the often tedious chain of decision-making moves toward acceptance or rejection of the Administration's recommendations for new legislation.

Johnson's style

In the decision-making procedures of lawmaking, I believe President Johnson's style is unique. He seems to regard himself as a part of the informal legislative process. President Kennedy was inclined to give his proposals to Congress with a logical and thorough explanation and a matter-of-fact transmission



ROBERT PHILLIPS

The author has been in public life since the early 1920's in state political offices and in important decision-making positions in both the legislative and executive branches of the federal government. Mr. Hays is now the Arthur Vanderbilt professor of government, Eagleton Institute of Politics, Rutgers University, and continues to serve as a White House consultant

of ideas, counting on his advisers and legislative leaders to carry the programs forward.

President Johnson prefers to explain and explain, persuade and persuade, and finally convince his former colleagues. He does not hesitate to telephone a member of the House of Representatives or the Senate or confront a member of Congress at the White House with his famous appeal for help, and thus nudge along the decision-making process of Congress.

We can assume that the basic style will not change from these tested methods even though it is still early in his presidential career to characterize his style with certainty.

It also seems likely that in contacts with the executive department Mr. Johnson will maintain his apparent preference for giving cabinet members considerable latitude and responsibility. There may be a tendency toward greater reliance on cabinet officers and less initiative by the White House staff. This does

not mean any lessening of importance of the work of the White House staff, but rather a division of responsibilities between the staff and the Cabinet in line with a traditional understanding of their roles.

Our system of decision-making is sometimes criticized for being inefficient. Politics may seem to delay policy-making. But politics is as essential as it is inseparable from the functioning of our government.

Certainly Congress often takes months—even years—to act on controversial legislation. Some regulatory agencies process cases for what may seem to the parties involved to be interminable periods.

Proponents of the massive income tax reduction proposed by the Kennedy Administration in January 1963 wanted Congress to move ahead without delay. But not only was the legislation extremely technical, it was necessary for many members of Congress and not a few of their constituents to become convinced that it was sound fiscal policy to cut taxes in a period of defi-

cit spending. It is rather remarkable that the tax reduction became law only 13 months after it was proposed.

My eight terms as a member of Congress were sandwiched between assignments in the executive agencies, including the Department of Agriculture, Tennessee Valley Authority, Department of State and finally the White House staff, where I have served since 1961.

In the 1930's, I was well aware of the irritations growing out of the national government's assumption of new functions. The depression programs were not, of course, administered with perfection. Both the administrators and the techniques were new, and many decision-making procedures were too rigid. I recall that one CCC camp supervisor complained that he couldn't get the lights turned off without Washington approval.

The burgeoning of federal bureaus at that time placed a strain on Washington personnel, and per-

(continued on page 64)

A LOOK AHEAD

Watch local steel fights

(Labor)

Instant banking coming

(Credit & Finance)

Welfare plans widen

(Taxation, Agriculture)

Where steel trouble could come



AGRICULTURE

Tough row to hoe is seen for many of the Administration's broader rural welfare programs—aid to people who live outside metropolitan areas whether on farms or not, residents of small towns, oldsters in retirement cottages.

Plans will face stiff congressional opposition when fully revealed, predicts a top farm lawmaker.

Rural planning supplants farm production, marketing, research programs as top priority in Agriculture Department policy-making.

"We are broadening our concern from the field of agriculture as an industry to rural America as an element of our national society," announces Agriculture Secretary Freeman.

Mr. Freeman indicates he seeks a federal hand in loans to businessmen, standards for small-town schools, services for older folks, jobs for rural youths who don't want to live in the city. Agriculture Department already administers federal aid to elderly home buyers, some apartment construction in rural areas. Rural Electrification Administration lends money to some businesses in depressed areas.

CONSTRUCTION

Many companies schedule record construction to meet nation's energy appetite.

Gas industry figures on biggest three-year building program in its history—\$5.4 billion, capped by record single year of nearly \$1.9 billion in 1967. Largest amount will come from companies directly serving consumers.

Private power industry foresees a record \$3.9 billion in construction this year, up from \$3.6 billion in 1964. The industry predicts outlays of \$12 billion a year by 1980.

Coal and oil plant and equipment spending totals are expected to edge off some. But not in all firms. Consolidation Coal Co., the industry's largest producer, readies capital spending projects rising to \$37 million a year in 1967 from \$30 million last year.

CREDIT & FINANCE

Instant banking—banks' use of computers for offering new services and cutting costs of old tasks—will climb.

A starter: DIVA, for digital input voice answer. Stock exchanges use a variation for communicating securities prices. American Telephone and Telegraph Co. and computer manufacturers work on a system for bank reporting on customers' credit. For example, if Joe Doaks wants to open a charge account, the store could dial a code number and get a computer's credit report on Mr. Doaks while he waits.

Some experts foresee start soon

on even broader community-wide computerized systems. Along these lines: Everybody in the city would have a bank account; salaries would be paid directly into accounts; consumers' purchases automatically subtracted and added to seller's account without need of checks; quick reports on credit worthiness and quicker payment of bills due for businessmen.

Dutch banking system already incorporates some features. Banks in Pittsburgh, Boston, New York, California study possibilities.

"By 1970," says Richard Sprague of Touche, Ross, Bailey & Smart accounting firm, "banks may be completely automated with the transfer of funds automatic and virtually instantaneous." Other experts are more sceptical. One reason: cost. Tab likely would top \$10 million for automating a large city banking system.

FOREIGN TRADE

New explosions threaten in Western Europe over expanding private U. S. investments there. What's new is that more European groups echo French talk about American business domination.

Reason: Experienced, technologically advanced U. S. companies are taking leads in the rapidly expanding industries which Europeans would like to keep for themselves.

Natural gas is a prime case. Dis-

covery of a huge gas field—possibly the world's second largest—under Holland and West Germany brings a rush of drillers from all over, many American-controlled. U. S. manufacturers of gas equipment set up shop in Europe. High European Common Market officials note this causes political unrest among highly protected coal miners in Germany's Ruhr, already upset by layoffs.

Italians, French, some Germans complain about big share of European auto market won by subsidiaries of General Motors, Ford, Chrysler. Politicians chafe because France's Machines Bull, Italy's Olivetti sought financial help from U. S. companies in electronic fields.

LABOR

Worry grows over home-town steel troubles this spring. Grass-roots revolt in United Steelworkers union promises tougher bargaining by militant local leaders.

Concern ties in with USW presidential battle. Grass-roots candidate I. W. Abel, union treasurer, seeks to unseat David J. McDonald. Many members gripe at union centralization. All labor contracts must be signed by top USW officials in Pittsburgh headquarters. All dues deducted from members' pay checks by employers go to Pittsburgh and then are doled out to locals. Local officials complain that top-level bargainers work out pacts before locals get their say.

An Abel victory at the polls Feb. 9 would probably bring more decentralization. Union chieftains already respond to local pressure. For the first time in years, bargaining begins at plant instead of industry level. Many local bargainers will confront companies with grievances, more belligerent demands before industry-wide negotiators take on wide-ranging issues.

MARKETING

You may want to update yourself on important doings in a field often taken for granted—patents. Skirmish lines are forming over possible basic changes in the system.

Any broad rewriting of law looks

about two years away. But the opinions that shape action are being presented now to powers that be.

A President's Commission on the Patent System is expected to urge changes in mid-'66. Chairman John McClellan of Senate patent subcommittee is receiving answers to his request for suggestions sent to a group of large companies, economists, lawyers, scientists.

Experts from industrial nations try to work out methods for speedier comparison of patent information. You can't patent here what's already invented somewhere else.

This year Congress may tussle with long-standing ideas for raising patent fees. It will consider changing copyright law which dies at year end. Proposals would enable authors to copyright works for longer periods.

NATURAL RESOURCES

Research spending by the private electric industry will climb in 1965 and beyond.

That's the outlook from industry executives. The Edison Electric Institute calculates investor-owned power companies and equipment manufacturers spent at least \$151.5 million on research and development in 1963. That doesn't count outlays by appliance makers, among others.

You'll be interested in some of the projects now under way whether you're in the electricity business or not. Here are a few:

Chemicals that slow down growth of trees whose branches might scrape power lines. Lengthening tree-trimming cycle from present two or three years could save industry some \$25 million annually.

Super storage batteries for use in electrically driven vehicles. A zinc-air battery system rechargeable overnight is under development.

Generating electricity by passing liquefied metal through a magnetic field.

TAXATION

Congress is likely to boost an important tax—the social security levy—this year.

Tax is already slated to rise Jan.

1, 1966—up one percentage point to 8¼ per cent on first \$4,800 of each employee's pay and still another percentage point two years later.

Employers pay half and 75 million covered workers pay half.

That rate will rise even higher when Congress raises social security benefits—a good bet this year, say Capitol Hill strategists. Tab will go up even more if compulsory federal health care for the elderly wins.

Social security benefit increases remain tangled with the health care issue. Chairman Mills of House Ways and Means Committee, which will handle the legislation, will probably try to hold down social security benefit costs if approval of the expensive health care scheme looks certain.

Proponents of compulsory health plan blocked any social security benefit increase last year.

Mr. Mills insists any new benefits must pay own way. As is, social security tax collections won't top outgo until 1966. Bureaucrats figure tax will total about \$19.4 billion, benefits \$17.9 billion that year.

TRANSPORTATION

Big decisions on a giant new airplane shape up at the Pentagon. Competing companies think a yes or no on construction could come in three months.

If ordered, the plane could be the forerunner of new commercial air freight or passenger fleets. Actual production is three or four years off at least. Dubbed the CX-HLS, the plane now exists only on drawing boards. Boeing, Douglas, Lockheed want the Pentagon to let them build it. General Electric, Pratt & Whitney are designing its jet engines.

Military planners want a fast transport that can span oceans, land and unload bulky equipment fast in forward areas and get out safely. Present transports can't do all the planners want.

Commerce Department looks at commercial potential. Analysts think air freight usage offers best prospects.

Designers shoot for five cents per ton mile operating cost. It could haul about 500 passengers.

REGULATORS

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Mr. Massel tells *NATION'S BUSINESS* that government regulators in general pay too much attention to policing the exact letter of the law in a number of individual cases and too little to gauging the broad economic impact of industry actions.

Attack on profits

He cites, for example, the privately expressed ire of a Federal Communications Commission official. The bureaucrat was happy when the Commission ordered a telephone company to lower its rates because its profit margin had climbed. But he became angry when the company immediately introduced new cost-cutting equipment which enabled profits to rise again. Government, Mr. Massel argues, should strive for policies which will encourage the most efficient use of resources and provide the best service, not simply policies which control profits or other aspects of business according to some predetermined standards.

Neither Mr. Massel nor most other students of federal intervention in business affairs would suggest that government regulation of public services—utilities, interstate transportation, communications—will or should end. But many believe market forces should be allowed to exert greater influence.

When granting television licenses, for example, the FCC holds in effect the power to decide which of several applicants, often almost equally qualified, will be allowed to make money.

"It's a wonder we haven't had more scandals over TV licenses," says Dr. Bernstein in surveying what's at stake. He advocates putting new television licenses up for bidding among previously screened applicants. The proceeds would go largely into a fund for some worthy cause, such as advancing educational television. In this way, he contends, the market system could take much of the pressure off the regulators with no greater danger to the public's interest.

Whether or not this suggestion finds favor, more of the present regulatory agencies will have to take steps which adapt their policies to today's economy and technology, many of these authorities forecast.

The National Labor Relations Board, for example, was created in

1935 to protect the labor movement at a time when jobs were scarce. But now, political scientists point out, unions have grown into established, affluent organizations which often wield monopoly power. Yet the NLRB still operates as a protector of unions.

Dr. Bernstein regards the Securities and Exchange Commission's current extension of many of its regulations into new areas of the investment industry as an attempt to keep up with the increasing complexity of the economy. Some securities dealers, of course, disagree that new federal controls are needed. And George J. Stigler, a University of Chicago professor, contends the SEC is not needed today.

The Federal Trade Commission, which follows largely unpredictable policies under its present leadership, is now making moves which some observers consider more in step with the times. The commission is trying to set guidelines for a number of practices—including mergers—for a number of industries. These guidelines could eliminate many individual nuisance prosecutions of companies. The catch, though, is that the industry guidelines can too often amount to just another case of government telling industry and the public what's good for them.

One regulatory field certain to draw top-level attention this year is transportation. Strong pressure is coming from railroads demanding freedom from the many regulations now administered by the 77-year-old Interstate Commerce Commission. A presidential task force has been studying the whole problem.

If the White House decides to propose broad legislation for transportation this year, policy-makers will have to consider the often-made suggestion that all transportation agencies merge. Proponents claim this would permit unified consideration of the problems of air, water, surface and underground carriers. The various modes of transportation are now regulated—with some overlapping of powers—by the ICC, the CAB, the Federal Maritime Commission, the Federal Aviation Agency and the Federal Power Commission, among others.

Another clutch of agencies due for White House inspection is the complex of banking regulators. Now, the Federal Reserve, the Comptroller of the Currency (currently James J. Saxon) and the Federal Deposit Insurance Corp. have overlapping and often conflicting au-

thority over the banking system. And this doesn't count the Federal Home Loan Bank Board which governs most savings and loan associations, rivals of bankers.

Administration sources predict that Mr. Johnson will tell the banking regulators to make peace among themselves, a step that should make regulation at least a bit more predictable for the financial community.

White House pressure

Probably the strongest theme that runs through any discussion in Washington today of federal regulation of business is this: Mr. Johnson is expected to make himself felt more than any other President, at least since Franklin D. Roosevelt.

Mr. Johnson's task isn't necessarily easy. The legislative and executive branches of government vie in influencing the direction of the regulators. The so-called independent agencies were set up by Congress under the theory that they would administer the regulatory laws as agents of Congress. But the President appoints commission members and largely controls their budgets. An administration move to exert too much influence on the direction of policies, therefore, could collide with a Congress jealous of its prerogatives.

Nevertheless, the potential influence of Mr. Johnson—or any other President in the future—on the course of other forms of business regulation seems likely to grow, authorities on government-business trends predict.

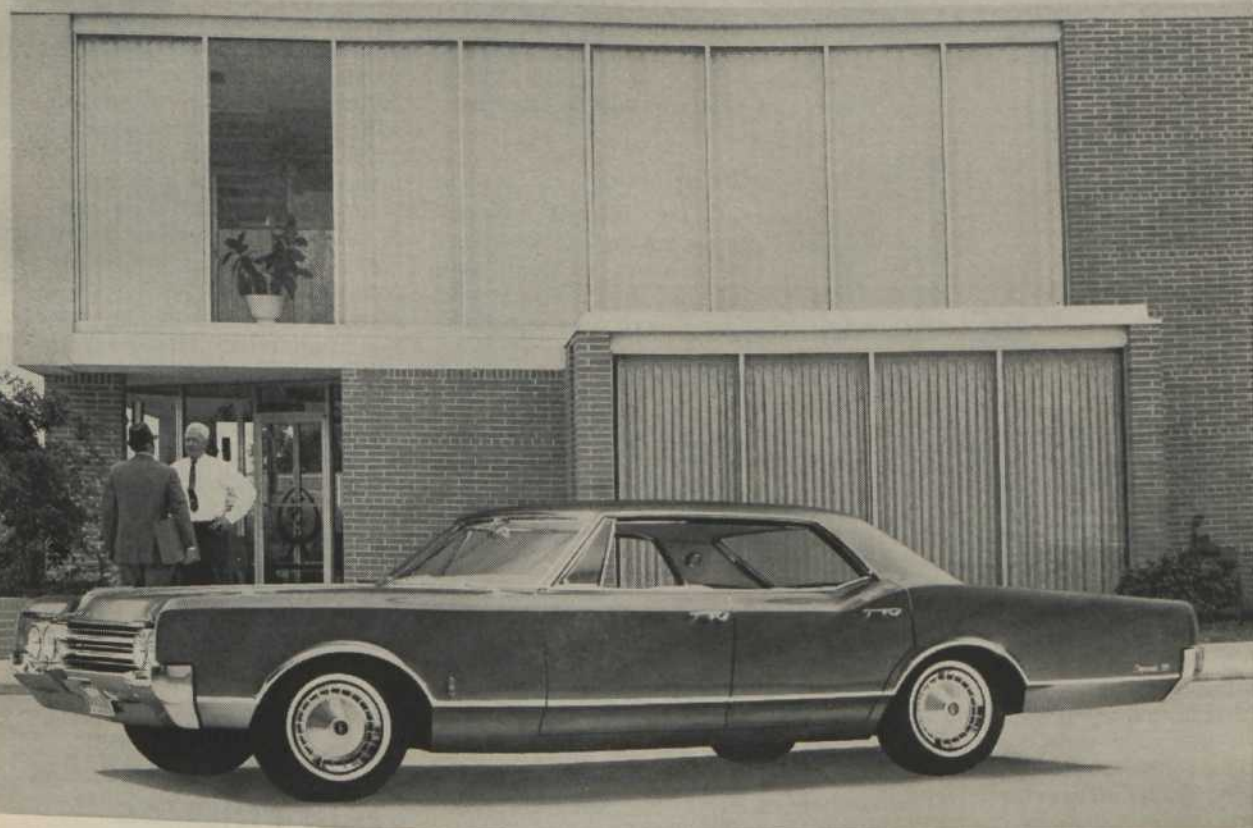
Their reason: The most important new pressures for federal intervention in business affairs will be in areas outside the scope of the more or less old-line regulators.

The area of the economy attracting the most attention from lawmakers who would like to extend federal controls covers the entire consumer market from food to finances.

Business groups are going along, if somewhat skeptically, with some moves in this direction. A Federal Food Marketing Commission is at work now, for instance, on a study of coming trends in distribution of food. It's expected to dig into topics from the trend in ownership of farms which produce the bulk of our food to the retail end of the marketing chain.

Business groups are cooperating. But many food industry leaders fear they may emerge unfairly branded as men who needlessly boost prices or threaten to dominate

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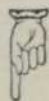
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REGULATORS

continued

food marketing at the expense of farmer and consumer.

Renewed fighting is expected this year over long-standing attempts to impose new federal controls on packaging of food, soap and similar consumer products and on interest charged for consumer credit.

Development of new drugs and other complicated health products will almost certainly lead to pressure for more federal regulation, Mr. Massel forecasts. The Food and Drug Administration, a part of the Department of Health, Education and Welfare, now watches over these items.

More antitrust action

Similarly, Mr. Massel believes, federal regulators will tend to get deeper into the act as more processed foods find their way to store shelves. These foods are considered opaque—in economists' jargon—to the consumer because not only can he rarely see through the container, but he also cannot determine for himself what went into the products and how they were prepared.

As the economy gets more complicated and business firms grow, Uncle Sam's trust-busters will gain influence if present trends continue, say authorities. This condition is shaping up, says Arthur S. Miller of the George Washington University Law School, because judges all the way up to the Supreme Court find the problem of weighing the economic impact of antimerger and other cases in the antitrust field just too complicated.

Consequently, the courts decide the cases on points of law alone, without really considering the economic advisability of their decisions. Justice Department attorneys, therefore, can often win cases on points of law which they should not have brought at all for the best interest of the national economy, Mr. Massel reasons.

Uncle Sam's growing role as a financier as well as his established importance as a purchaser are bringing more indirect regulation to the economy. The controversial urban renewal program, for example, can give a city new buildings. But the price includes imposition of federal requirements on buildings and many other controls.

Defense Department purchases and financing of research often intermingle the interests of business and government so that it is diffi-

cult to determine where one ends and the other begins.

"As long as we have large government contracts, we're going to have those contracts used for additional purposes beyond simply purchasing or financing," says Mr. Miller, who writes and consults with government agencies on their business ties.

Thus communities which receive public works money from Washington must satisfy federal inspectors as to employment practices followed by contractors who handle the projects. And it's a sign of possible similar actions to come that the government's housing agency suspended for a time its California programs after voters repealed the state's "open housing" law.

Not all pressure for more regulation need necessarily involve the federal government, of course. One of the hot topics in the present Congress is likely to involve further controls of air and water pollution. Most proposals would give regulatory powers to Uncle Sam. But state or regional agreements could do the job at least as well.

Whatever happens in the way of imposing new regulations or easing old ones, however, it's clear that it will affect your business. For as the late Supreme Court Justice Robert Jackson said in commenting on federal regulatory agencies:

"The rise of administrative bodies probably has been the most significant legal trend in the last century and perhaps more values today are affected by their decisions than by those of all the courts." **END**

YOUR FRIENDS

continued from page 37

whose members include officials of some of America's top corporations. "This is one of the many, many loose charges by people in the enforcement agencies who equate trade relations with reciprocity," he tells *NATION'S BUSINESS*.

Mr. Meade traces the development of trade relations—"not selling the product, selling the whole company"—to two postwar developments: the diversification of product lines within companies and the decentralization of management.

He points out that, with vast amounts of buying and selling by various divisions of a company, there's a need for coordination.

"You can't distort the normal pattern of economics and cost," or resort to coercion, he agrees, but be-

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YOUR FRIENDS

continued

yond the normal elements of competition, all being roughly equal, there is a natural benefit in dealing with friends, who also help to support your company.

Columbia University law professor Milton Handler, an antitrust authority, says: "Everyone agrees that, other things being equal, buyers will favor suppliers who are customers and that it would be contrary to human nature for this not to occur. The rub is when other things are not equal. . . .

"What is ethically or socially reprehensible about reciprocity where there is no sacrifice of efficiency, no disparity of price, quality or service, and where there is no coercion? Conversely, how can one justify coercive reciprocal dealings which impair the efficiency of business operations and have a substantial adverse effect on competition?"

The Trade Relations Association stresses "evaluation of price, quality, delivery and service, regardless of the existence of trade relations or the presence of both a buyer and a seller relationship between the firms."

Andrew F. Storer, association secretary and assistant vice president of the St. Regis Paper Co., puts it this way: "Business always has been and always will be motivated by 'doing business with your friends.' It all depends on how you do it."

Another consideration, Mr. Storer adds, is balanced competition among suppliers. "Too much competition can be as harmful as too little."

No abuse seen

G. W. Howard Ahl, executive secretary of the 16,500-member National Association of Purchasing Agents, tells *NATION'S BUSINESS*:

"I have a feeling that reciprocity has been a problem ever since buyer and seller have been getting together," but he adds, "I don't think it's actually ever been a major problem."

For example, Mr. Ahl says he has heard of no instance in which a small company was forced by a big customer's purchasing power to accept a less-than-favorable deal.

The new attacks seem aimed at the most common type of business merger—the diversification or product-extension merger—whereby expanding companies seek to enter new lines of business by acquiring

going concerns with bright prospects for growth.

Since the reciprocity and merger issues are intertwined, says one antitrust authority, current economic factors involving mergers should be considered.

There is an unprecedented phenomenon, this source asserts, of prosperity induced by favorable tax treatment of capital expenditures, liberalized depreciation allowances and reductions in corporate income tax—all leading to higher cash flow. Business is expanding from within, through retained earnings, and looking for promising acquisition possibilities.

With the acquisition of competitors, suppliers and customers pretty well foreclosed by antitrust policy, diversification mergers often represent the best bet for growth.

Competition is actually stimulated when a well financed subsidiary of a diversified corporation can jolt a sleepy industry out of the doldrums.

Modern technology also demands the large capital resources at the command of a rich parent company. And it's more economical for an expanding company to acquire a going concern than to start from scratch itself.

As to the business practices involved, Chicago attorney E. Houston Harsha points out the distinctions among four major possibilities:

1. Coercion.
2. A mutual agreement whereby each company agrees to buy from the other.
3. Suggestions by one company that the other company should buy from it.
4. One company buys from another, hoping that the other will reciprocate.

Another expert notes that a flat ban on all reciprocal dealings, as implied in the FTC attack, could force a company considering a business deal to say: "If I buy from this firm, am I foreclosing it from buying from me?"

Such a policy would be unrealistic as well, because one company may be the sole supplier of a product needed by companies that sell to it.

Some coercive reciprocity undoubtedly exists today. Mr. Meade says he'd be the last to claim that it is not being practiced under the name of trade relations.

But such practices can be stopped under the Federal Trade Commission Act as unfair methods of competition.

END

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PREVIEW OF CHANGE

From now to 1980

VYTAS VALAITIS



New competition, new markets, new products, new government roles, a new tempo in the U. S. will challenge business over the 15 years ahead

THE NATION is now entering a new year, a new political administration and, in the belief of many, a potential new pivotal period in business.

Another punctuation mark in time will be the year 1980. Another election year, it will be a time of stock-taking and preparation for meeting the conditions of the final years of the Twentieth Century.

For a look at America in the period between now and 1980, the editors of NATION'S BUSINESS interviewed Leo Cherne, executive director of the Research Institute of America, Inc., at his New York headquarters.

Mr. Cherne describes where he and his associates think business opportunities will lie. He talks of the challenges businessmen will face in their thinking. And he forecasts that the roles of governments will change as will the pace of daily life, both of which will affect your business.

Mr. Cherne, what will be uppermost in businessmen's minds in 1980?

Businessmen in 1980—that's only 15 years away—will be primarily preoccupied with this particular question: How to keep up with the fantastic technological change which is only now beginning the process of rapid acceleration—the introduction of advanced data processing, of infinitely more rapid and complete systems of communication, of fantastic electronic devices, of new ways of making things and new materials from which to make them.

It is enormously difficult to describe the impact of these and other technological advances. This is at the very heart of the difficulty businessmen will increasingly have in dealing with these things: Understanding what it means, what is its magnitude, how do I use this technology?

Technology is moving faster than the human capability to apply it.

Does this mean, then, that the businessman who can learn to use this technology for his own purposes is going to gain an advantage?

I am saying that if the businessman is not well informed he will not even have a chance to exist as a businessman.

It will not be possible for the businessman to remain indifferent to the world of science.

Isn't this largely true already? What further changes can we expect, for instance, in production?

Almost without exception, new production processes by 1980 will achieve a quantum jump in precision, speed of operation and capability of being run with little or no human supervision.

Assembly operations will be drastically reduced. To a larger and larger extent, products or major segments of products will be made in one piece—often in one operation.

Engineers in 1980 will be able to set the theoretical specifications of a new product and then invent materials to meet these needs. As we see it, new materials will have many new properties: The ability to resist sudden and extreme changes in temperature without losing flexibility, transparency or workability, for instance. Color that can be changed by external means, such as an electrical impulse. The ability to be bonded instantly to many other materials. The ability to conduct electricity safely and convert it to light or heat at selected points in the material itself. Almost total absence of surface friction, without lubrication, under any operating conditions.

These are only some of the advances in technology which businessmen will have to learn to apply in this new era.

What goods will people want in 1980? How will consumers' demands change?

More durable goods, not as rapid a growth in the sale of nondurable goods. This is a reversal. In recent years, the trend has not been as favorable to durable goods.

These are products for the home and automobiles?

Yes, among other things. You also can't tell now what new products will come on the market.

It is very clear, for example, that home or family motion pictures on electronic tape, immediately playable back on the home television set, is a development attainable within the short-term future.

The picture phone will undoubtedly take hold. The only restraint will be how rapidly telephone companies can introduce them.

In addition, we foresee a very substantial increase in the desire for certain kinds of services. Travel is one of them.

The pressures of sheer crowding in constantly growing metropolitan centers will introduce a substantially

FROM NOW TO 1980

continued

increased desire for privacy of various kinds.

Better housing?

Better housing, better construction, more privacy in the walls.

But in addition to that, a greater tendency on the part of people to get away to the national forests, or other secluded areas, privacy that way.

Individuality of all kinds will see something of a rebirth as a result of the pressure of the mass. Mammoth markets for indistinguishable commodities will, of course, grow. But what has been ignored by many businessmen is that there is the simultaneous growth of substantial markets for unique and different things, for various elites within the community. These will be very important markets.

The vastness of the major markets is a fact which can be projected into the future. There is no doubt about it. But some of the most substantial opportunities will exist in the separate markets, the particular and special choices and the less general tastes.

Instead of planning for sales of many low-price models and a few deluxe models, merchandisers can figure on sales of as many or even more of their top-of-the-line numbers as of their standard items.

Who will buy these goods? How big will the market be?

By 1980, the nation's population will be about 245 million, some 50 million larger than today.

Over the five years immediately ahead, the wave of men and women who were the baby boom after World War II will be moving through college into the ranks of income-earners and into the family-forming age group. The boost for the economy will be impressive.

Finally, in the first half of the 1970's, they will be giving the birth rate another push upward, producing an echoing baby boom, with implications for housing, home furnishings, baby clothes, toys and food.

Not only will there be more families in 1980—82 million against 48 million today—but a great many more of them will be well off by today's standards. The typical family will have an income of about \$9,800, more than half again as great as today's \$6,400. Proportionately three times as many families will have incomes of \$15,-

000 or more. The proportion with incomes of under \$5,000 will shrink by nearly half. All of these figures are in constant dollars, of course.

Do you expect a steady boom between now and 1980?

Unfortunately, no. Economic growth will not come about smoothly and easily, with no crises. It's almost certain that, as in the past, the uneven rate of development will create periods of recession, serious unemployment and profitless business operation between now and 1980.

What is the job outlook?

I think we will be coping with a job problem for the rest of our lifetimes. But we do not expect giant unemployment. A combination of factors will lead to a kind of suppressing of the problem, a certain amount of featherbedding or make-work—the addition of amenities and leisure-time activities on company payroll and less demanding attitudes about continuous work.

Interestingly enough, the major group that will press in this direction will be businessmen.

Why is that? Increasing social consciousness?

It is partly social consciousness, but it is by and large individual business consciousness. Businessmen do not relish handing out discharge notices. It is becoming part of the business culture, even now, that somehow or other the unemployment effects of automation ought not to be imposed on those now employed.

The manager is not thinking of society as a whole, he is thinking of his business, his people.

To be sure, this is far less than a complete answer, because while it may shelter employees from the effects of automation in that plant, it certainly does not open up opportunities for new employees.

When we talk of more leisure time, incidentally, we do not visualize a four-day week. That does not mean that a four-day week will not exist for a certain percentage of businesses or for certain crafts. But it is our judgment that it will be a more relaxed, shorter five-day week.

We visualize more three-day week ends. We visualize a longer vacation period. We visualize a spread of the sabbaticals that have been introduced in particular production industries where automation has had a dramatic effect, as, for example, in steel production.

Have people learned to cope with leisure?

Not yet. The human race has never had to. We are in a most remarkable period. Throughout all human existence, it has been utterly impossible, no matter how hard one worked, for the mass of the people ever to have enough to eat, ever to have enough of the physical necessities of life.

We in America are within just a very few years from the point where more dollars will be spent by the consumer on services than the sum total of all physical needs.

Work will increasingly drain only a part of man's energy, and for the first time he has to grapple with the question: What does one do with time and energy if work takes only a part of it? This is really a novel question.

Is it that it must be activity meaningful to the individual?

Yes. In a sense, when work is reduced, as it almost certainly will be, there is a very real crisis of values for people generally. Great groups of people have been trained by nothing in their whole culture, background, religion, philosophic conceptions, for anything other than work as a meaningful activity.

Does this open up new enterprises for people?

It opens up for business a wealth of new opportunities. There is an explosion already well under way in travel.

Certainly I think it is significant that the United States publishes more paperback titles than either we or any other group of nations ever have, the fact that there are more serious recordings sold, the fact that attendance at symphonies was larger than attendance at football games in 1963. These are manifestations of the fact that, given time and money, a substantial percentage of the population will learn to use them and certain groups will learn to satisfy their demands.

One of the great new opportunities for business is the sale of culture and education. And I think that much of education is not going to be conducted in schools. Initial education, yes, but a remarkable amount of it will be made available through the efforts of individual businesses.

Incidentally, I do not mean to be romantic. I am by no means suggesting that because there will be time available and, because there will be larger real dollar income, that most American families will be going to symphonic concerts, reading the best and most difficult paperback books published, going

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TO: See Below
FROM: M. Phillips
SUBJECT: Market Planning Meeting
DATE: October 23, 1964
C.C.

Listed below are the major items we would like to discuss during our regular Monday morning meeting. In the afternoon we plan to have a competitive equipment review.

1. Weekly review of marketing and sales plans.
 2. Data on installations by equipment, by key accounts, by geographic locations.
 3. Systems applications, new business uses, special market applications.
 4. Relationship among domestic and foreign markets in terms of volume, placement, added marketing effort.
- Let's not waste time. If you have anything to add or delete to the above list, let me know immediately.

WP:gm

CC: J. Rutledge
D. Clark
P. Evangelist
A. Hay
J. Clarke

Bill:
I don't think we're prepared to discuss #4 in detail - let's skip it for now
JP

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A. Hay
J. Clarke

Bill:
I don't think we're prepared to discuss #4 in detail - let's skip it for now
JP

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FROM NOW TO 1980

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to schools or taking courses at home.

I think that for many the additional money and additional time will bring problems they can't absorb intelligently. Some people will get the bends and will do silly or dangerous things, because they will be disoriented by the availability of resources, time and money that they are just not emotionally equipped to handle.

Does all this bring a danger of inflation as wages rise and hours shorten?

None of this need, by itself, produce inflation. Inflation is a result of many things—the size of wage increases in relation to output, the whole cost-price wage equation, government policy.

There is no doubt at all that wages will increase. We conclude that in constant 1960 dollars gross national product, which ran between \$620 and \$625 billion in 1964, will in 1980 all but have doubled to \$1.16 billion. The actual amount in 1980 dollars will be larger because, of course, there will be a continuing erosion of the dollar.

Personal consumption will double. In 1980 we expect that \$745 billion, after taxes and savings, will actually be spent by the 245 million Americans of 1980. Bear in mind that \$745 billion is about 20 per cent more than the total gross national product now. These are in constant dollars.

Will there be inflation? I would say that over this 15-year period to 1980, the annual percentage of inflation will, if anything, be lower than in the last 15 years.

Why?

First, the presence of people hungry for jobs will be an important moderating influence on excessive wage increases.

Second, the United States increasingly sees its economic survival depending on competitive prices in the international market place. That will operate as a restraint on the price increases among businessmen.

Third, the federal government will be a smaller influence for inflation than it has been at any time in the past 30 years, no matter what administration is in power in Washington. Federal government expenditures as a per cent of gross national product are dropping. This is not because of restraint on the part of a particular president. It is because the rest of the economy is

going to grow faster. The federal government will have less leverage.

Do you expect that there will be further federal tax reductions?

Without any question. The only question is: What year? If I had to guess now, I would say that 1967-1968 will see the next round of income and corporate tax reductions, in addition to the excise tax reductions, which I anticipate will take place in 1965.

What do you see happening in relations between the federal government and local and state governments?

I see no abatement in the need for traditional services. I see some areas, in fact, of fairly obvious increase. The problem of air pollution is a new problem, or at least the dimensions are so increased as to make it an essentially new problem. That problem will involve government. And in my judgment it is going to involve local and state governments.

On the urgent problem of needs in education, we are just not going to have the educational plant that this country will require, even numerically. Let's assume no qualitative change in education—though I do visualize a substantial qualitative change—but even quantitative ly we don't have enough schools.

We will need more medical facilities.

The doctor is a local instrument. So is the hospital. So are nurses. There is an urgent need for nursing homes, what with the rapid increase in older population groups and the increased ability to keep older folks alive. We have never been accustomed to grappling with that, and the answer, by definition, is local. So there is going to be a continued and expanding demand for more and more local and regional services.

Will state and local taxes continue to increase?

No question.

How does this affect the businessman? Presumably he is going to have to take a look at his relationship with state and local governments?

Businessmen more and more will develop increased concern and real anxiety about local government, and less and less preoccupation with the federal government. This is a product of the fact that business is a physical thing located in a place, and its needs are local. If business needs trained manpower, it is the local entity which is relevant, not the federal government.

In addition, businessmen are obvi-

Without selling one electric shaver, this man helped increase Remington's net profit in the last five months.

**Who is he?
Their traffic manager.**

In the spring of 1964, Charles Clark, Jr. and his traffic staff at Remington Electric Shaver agreed that R E A Express was to be "first-considered" for all Remington shaver shipments. Ever since, their wisdom has been paying off to the tune of a 30% cut in Remington distribution costs.

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FROM NOW TO 1980

continued

ously deeply concerned with social order. It is generally assumed that the New York World's Fair did not have the attendance last summer that had been expected in part because of fear of crime in the streets. That also means thousands of businessmen did not have the income they expected to have. Businessmen have been the first to feel the effects of social discontinuity.

We saw in the tax bill last year an example of how the interests of both the federal government and the business community coincided. Do you foresee more examples of this happening in the future?

I think there will be two trends operating simultaneously. The federal government is a source of regulation of business, whether it is regulation of pricing practices or advertising, whether it is regulation conducted by the Federal Trade Commission or the National Labor Relations Board. The federal government as the source of regulation will, by virtue of that fact, be an irritant to many businessmen.

On the other hand, the federal government as an ideological source of hostility to businessmen will not be what it has been. This has already changed profoundly. I think it is not accidental that some of the business community found Lyndon Johnson less hostile than many of his predecessor presidents.

I think we have finally gotten the great depression out of our system, the economic warfare and political warfare of that period of time. I think we have gotten a kind of inverted Marxism out of our system, the sterile language of hostility between government and business, between labor and business. I think we have gotten some of the Franklin Roosevelt language out of our system.

In other words, we have gone through 30 years since the great depression, and even a Democratic administration now is remarkably sympathetic to many business objectives. Part of that flows from the fact that even Democrats have discovered in this period of time something they really did not know that clearly in the 1930's, and that is that if the federal government has any interest in maintaining prosperity and encouraging growth, government by itself at best is only a modest instrument in that direction.

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Delivery of "World's Fair Special," the vehicle displayed at the New York World's Fair, to Roy Fruehauf, Inc., brings its fleet of GMC DFW-7100 tractors to a total of 92—all powered by Detroit Diesel 8V-71 engines. These rigs, leased to Six R's Construction Co., carry payloads up to 57 tons, average 250 miles a day. President Roy Fruehauf says, "We chose 8V-71 engines because they offer the best performance with low engine weight. They're doing an exceptionally fine job for us."

The world science will create

Swimming pools on airliners, harmless wars fought by robots are among the wonders foreseen by leading scientist in this view of U.S. technological progress

BEHIND THE headlines that hailed the success of each Project Mercury orbital flight was an organized effort actively involving more than 19,000 people with all degrees of training and skill, deployed in 16 ground stations around the world, sailing the oceans in 28 ships and flying in more than two-score aircraft.

John Paul Stapp, the author, is a physician, biophysicist and Air Force colonel. He won international fame with his high-speed rocket sled research on human tolerance to crash-type deceleration. Dr. Stapp has received many honors in science and space medicine and has written extensively in the field. This article is adapted from a chapter in "Space: Its Impact on Man and Society," edited by Lillian Levy, to be published this month, © 1965 by W. W. Norton & Co., Inc.

Never before in human history have so many people so widely separated worked together on a single scientific experiment. A revolution in scientific research and technological development, this highly organized systems approach has opened a new phase in man's development—the space age. The beginning of this scientific and technological renaissance merits more detailed consideration, particularly in its projected lines of development and future implications for the human race.

Mastering our environment

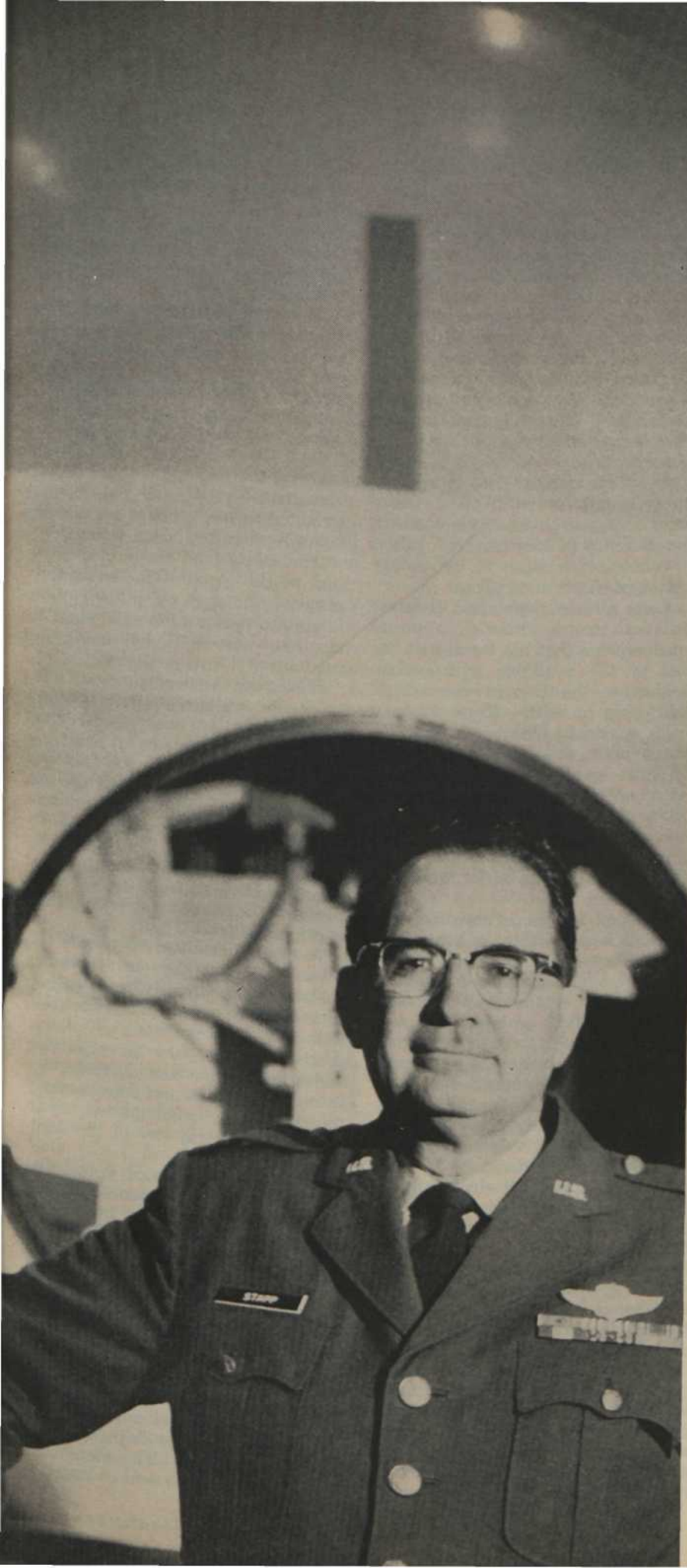
The most important development in this phase is man's conquest of the limitations so long imposed on him by environment. Today, man has the mastery not only of the temperature of his environment, so that he can enjoy the fruits of hydroponic gardens in the Antarctic,

artificially lighted and heated by electricity from atomic generators, but he is also able to create and maintain closed environments for surviving and working comfortably under the sea in submarines, in the stratosphere in airliners, in orbital space in artificial satellites.

This has been done by extracting, accumulating and converting energy from the environment to provide power for maintaining and controlling atmospheric temperature, pressure and viable composition within his inclosure while excluding all adverse environmental factors.

Man will achieve his supreme triumph over the most extreme environmental hazards he has yet dared to challenge when he succeeds in establishing observatories and scientific bases on the moon. To minimize logistic support from earth, these lunar colonies will require self-sufficient life support in a balanced vivarium, where the gaseous, liquid and solid chemical cycles of earth life are reproduced and maintained within a shell. This shell must exclude the high vacuum at the moon's surface, the extremes of heat and cold during 330½ hours of day and 330½ hours of night under conditions of total heat and light radiation, radioactive emanations from solar storms, and all sizes of stray meteorites.

Whatever materials can be found on the moon for constructing this shelter will reduce by that much the costly cargoes brought from earth. Power requirements can be met with electrical energy obtained from solar cells, transforming the lethal, unfiltered sunlight on the moon's surface from a formidable hazard into the indispensable resource for survival. In essence, this will be a miniature earth environment, the smallest completely inde-



pendent and self-perpetuating package of the elements in our world needed for sustaining human life.

The scope of man's technical advancement has been limited only by the energy at his command. Up to the middle of the Twentieth Century this energy has come from combustion of vegetable and mineral hydrocarbons, hydroelectric generators and electrolysis in metal plate batteries.

Today, atomic fission provides power for submarines and for some public utility generators, although at a cost higher than for conventional electric power systems. Atomic power plants of a size, weight and longevity adapted to space vehicles in journeys of up to three years' duration have been developed at a cost justified only for research.

A more ingenious development for the same application is the fuel cell, in which electrolysis is reversed to produce electricity by the controlled combination of hydrogen and oxygen. A mixture of two parts hydrogen and one part oxygen can be exploded by a spark to produce water. Combined much more slowly through porous electrolytic barriers, current can be drawn at voltage proportional to the pressures of combining gases.

A variant of this is the biological fuel cell, in which the combining gases are by-products of bacterial metabolism. Here lies a possibility of incorporating a fuel cell into the sewage disposal system of a space vehicle, and eventually into that of a lunar colony, so that an electrical energy by-product can be derived from sewage processing at the same time producing pure drinking water without distillation. Such biological fuel cells could be economically feasible in city sewage disposal plants, where the gases

Balloons over deserts and deep wells could bring vast new energy sources

of activated sludge are sometimes burned for heating.

The most significant energy source whose exploitation has been accelerated by space power requirements is the direct conversion of solar heat to electric energy by photocells and thermocouples. The very first space satellite put in orbit by the United States, the Vanguard I, no larger than a grapefruit, derived its power for electronic transmissions by transforming sunlight into electricity. Its weak signals clearly received by astonishingly sensitive ground stations transmitted data permitting a more accurate appraisal of the earth's shape.

A much more sophisticated solar energy power plant, with self-orienting vanes to gather maximum sun power, was used in Mariner II, the missile that made the journey to intercept the planet Venus. Power enough to transmit many channels of data and to operate complex internal controls was produced during several months of flight, with successful reception at more than 40 million miles from the earth.

The unfiltered sunlight of space provides a very pure source for precise experiments in solar energy conversion to obtain data for a moon power plant design. Such a power plant would be based on scientific feasibility; operational experience with a large-scale lunar power plant would provide performance data for designing an economically feasible power plant to generate electricity from sunlight at the earth's surface.

Enough kilowatts for all

The vastness of the solar energy resources on the earth's surface quickens engineering imagination. The earth has a surface area of 510,101,000 square kilometers. Of this, 148,847,000 is land, of which approximately 20 per cent is desert.

The deserts of the earth are eminently suited for solar-electric power-plant locations because both inhabitants and clouds are scarce. Each square kilometer receives 10,176,000 large calories of heat energy per minute. In 12 hours of sunlight, this would amount to 8,533,872 kilowatt hours' equivalent per square kilometer per day. The sunlight on

30 million square kilometers would then be 256 million million kilowatt hours. If one tenth of one per cent of this energy could be collected and if a process having an efficiency of one per cent converted it to electricity, the product would still be over 2.5 billion kilowatt hours of electricity. A population of more than five billion persons would therefore each have about the power consumption of an average American. Considering that photosynthesis by chlorophyll in plants stores solar energy in chemical change with an efficiency of four per cent, this is a conservative estimate for energy retrieved from sunlight.

Long after a population increase on earth has resulted in a power consumption that has burned up the last of the available hydrocarbon resources, the human race could still carry on with energy obtained from sunlight. One can imagine a power plant consisting of a cluster of large captive balloons covered with solar energy cells floating above the desert power station at a favorable altitude, feeding current through the mooring cable conductors for storage or for transmission to consumers.

Another source of heat energy that can be tapped is the heat of the earth's crust. At a depth of 15,000 feet, the temperature is 282°F, that of live steam at 100 pounds per square inch pressure. A very deep well could provide heat for a closed steam turbine to generate electricity by piping down water and bringing up steam under pressure. This already has been done on the slopes of volcanoes, where heat is near the surface.

Unlimited low-cost electric power can provide solutions for many problems besetting the present and menacing the future of mankind. Air pollution by combustion products of hydrocarbon fuels could be eliminated if battery-powered electric automobiles replaced gasoline and diesel vehicles.

Parking meters with recharging plugs could replenish the batteries while the car is away from the home garage recharger. Electric air conditioning could replace home furnaces. Quiet electric power would reduce the noise on city streets.

As human population increases, the water problem grows more acute. Cities, towns and farms will have ever less option to locate near water resources. Water will be brought to them instead. At present, the city of Los Angeles finds it more economical to bring water more than 200 miles across the desert by aqueducts from Lake Mead than to desalt or distill potable water from the adjacent Pacific Ocean.

Research on the problem of extracting fresh water from the ocean is no longer concerned with methods but with cost accounting. Bringing the power cost down to a competitive level with natural fresh water transported a great distance will make large-scale fresh-water extraction from sea water feasible. Deserts near the ocean can become irrigated farms, ranches and forests by using desalted ocean water.

The entire food needs of a growing world population eventually may not be met by putting more land into agriculture with such irrigation, nor even by increasing productivity with fertilizers.

Direct synthesis of nutrients from inorganic resources offers a challenging solution now within practical reach. Plants can take nitrates and ammonia from the soil and synthesize amino acids which are assembled into proteins by enzyme catalysts, promoting chemical reactions selectively. Continuing research on the low-cost synthesis of amino acids and, from them, edible proteins, is the first step in direct synthesis of food.

A more difficult challenge is the invention of methods to synthesize carbohydrates directly from carbon dioxide and water in competition with the photosynthesis of plants. A cheap, direct way of combining water and carbon dioxide molecules into edible sugars and starches may mean man's emancipation from hunger and a way out of the Malthusian dilemma.

Dependence on crops vulnerable to weather and pestilence will no longer determine feast or famine for mankind. Through synthesis of proteins and carbohydrates, man can control the water, nitrogen, and carbon cycles of nature instead of being limited by them in the struggle for survival. This now appears within reach.

Research to provide adequate and palatable synthetic diets for astronauts who will travel into space for months and perhaps years has had significant success. The diets contain essential amino acids, vitamins,

the requisite salts, glucose as a source of carbohydrates and ethyl linoleate as a source of essential fat.

With cheap electric power, the reclamation of minerals such as magnesium from ocean water could be expanded. The floor of the ocean is only beginning to be thoroughly mapped, and eventually it will be gleaned of sedimentary ores such as manganese which is found in lumps on the bottom of the Pacific. Submarines and gigantic diving bells over mine shafts may facilitate the next revolution in offshore mining techniques.

Anywhere in two hours

The mass logistics of transportation between continents will bring about two very important developments that will make use of atomic power plants. With atomic power, the size of submarines is no longer power-limited. In the tranquil depths beneath surface ocean storms, submarines with the cargo capacity of today's largest freighters will move safely on schedule at several times the speed of their surface predecessors. Behind them they may tow submerged trains of plastic sausages enclosing bulk cargoes of liquid or gel chemicals such as fertilizers, solvents, paints, lubricants, wine, molasses and petroleum, which could be easily detached for unloading, with increased turnaround speed for the submarine-tractor.

Above the ocean, great flying ships of a size capable of landing only on water can carry cargoes of higher speed priority. The weight of shielding of an atomic power plant is taken care of by buoyant displacement in submarine and surface ship power plants. For the flying ships, the solution is one of relative size. A 5,000-ton flying ship would be propelled by ducted fan propellers located in tunnels through the thick wings. Combinations of pusher and tractor propellers could be turned by electric motors with current from a central atomic power plant. With a 1,200-foot wingspread, a 30-foot thickness would not be out of proportion, and tunnels expanded to a diameter of 20 feet at the propeller ducts could be accommodated.

Perhaps the tourist passenger could accept a 400-knot air speed at moderate altitudes in return for all the luxuries of an ocean liner stateroom, restaurant, theatre, shops, deck chairs and even a swimming pool. A thousand tons of express cargo and mail could be profitably carried.

For all-out high-speed travel, rocket-powered aerospace transports will make no two points on earth farther than two hours apart. With liquid hydrogen and oxygen propellant in controlled thrust motors, the transport could take off as a jet airliner does today, but would quickly go into ballistic mode and rocket up to 80 or 90 miles at 8,000 miles an hour. It would then shut off power and glide in ballistic trajectory to its destination, accomplishing a powerful reverse thrust re-entry followed by normal landing after deploying retractable wings.

Bionics and cybernetics are two favorite catchwords in the argot of technology. Bionics means the study of living functions as a way of making short cuts in technical applications. Fish and aquatic mammals that use echo returns similar to sonar, migrating birds that navigate by reference to the earth's magnetic fields, insect mosaic eye vision applied to the design of a battery of photoelectric eyes to measure aircraft ground speed are illustrations of the significance of bionics.

Cybernetics is the science of automation. Machines can be guided through complex precision operations by command of a tape recorder, playing back through electronic controls.

Mechanical men in action

A further step by combined application of bionics and cybernetics can be foreseen. This is the man-machine combination. To avoid exposure to radiation hazards, remote manipulation devices have been developed which permit the motions of the operator to be faithfully transferred to an artificial hand and arm on the other side of a shielding panel.

When the operator picks up a dummy test tube, a real test tube of radioactive chemicals is picked up 25 feet away by his mechanical mimic; to pour its contents accurately into a flask requires no little practice on the part of the operator. Nevertheless, an astounding variety and complexity of manual remote-control functions can be done with this pantograph system of remote manipulation.

A more rational approach involves the use of a light, plastic armor suit completely enclosing the man, so that any movement he makes with any part of his body moves the suit correspondingly.

The movements of the suit actuate electronic circuits which can translate them to corresponding

Business taxes in New York State are lower than you think

Many firms interested in relocation consider only state taxes. But in many states you pay for vital services such as roads, sewerage, fire and police protection through a complex maze of local taxes, which are often less flexible and predictable.



In New York State business tax collections have risen less than in any other state. Moreover, a new state law allows you to write off any plant or equipment in half the time allowed by the federal tax authorities. And you can write off research and development facilities in just one year.

NO PERSONAL PROPERTY TAX

In many states personal property taxes exceed real property taxes. And these property taxes must be paid each year, regardless of profit or loss. However, in New York State there's no tax on personal property, inventory, equipment or raw materials.

TWO STATES COMPARED

Take the example of a manufacturer who has to maintain expensive production and research equipment. Here's how this tax bill would be assessed in New York and in a neighboring competitive state.

STATE "X"	NEW YORK
Other 8%	
Annual Franchise 5%*	
State Property 4%	
Local Real Property 29%	Corporate Franchise 55% Based on Income
Local Tangible Personal Property 54%	Local Real Property 45%
 Inflexible Taxes	 Flexible Taxes

* Based on capital stock

The taxes in the neighboring state are inflexible and based to a great extent on real or personal property or inventory. These stay the same, regardless of earnings. In New York over 50% of the taxes are flexible and based on profit. This prevents high taxes in a bad year.

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For a complete picture of the tax system in New York State send for our free tax booklet. You'll see some important reasons why more firms have relocated in New York State than in any other state for the fifth straight year.

And if you have any other questions on plant relocation in New York State, send them along, too. Your inquiry will be coded for complete secrecy.

Write: Commissioner Keith McHugh, Box 1H-4, 112 State Street, Albany 7, New York. Or, if you prefer, ask any responsible third party to contact us for you.



**DISCOVER THE NEW
IN NEW YORK STATE**

movements of hydraulically actuated homologs of the man's muscles. For example, a man wearing the control suit could climb into an air-conditioned steel replica of himself, several times his size, and with no exertion go through the motions of picking up and tossing aside one-ton boulders while the hydraulic muscles, cued by his movements, did the actual work.

In another application, he could wear the control suit while looking at a three-dimensional television image projected from a closed-circuit TV camera in the head and eyes of his steel replica. The replica could be walked into a reactor control room in a disaster and, under direct visual control by the operator, could perform any required task to remedy a malfunction or avert a catastrophe.

Microphone ears for such a robot would be used in situations calling for hearing, and pressure and temperature transducers could communicate sensation to the human operator's fingers.

A more fantastic application would be to put such anthropomorphic robots in a space station, slaved to human controllers in a ground-based duplicate of the station. The earth-naut and his mechanical astronaut twin would lead identical lives, except that the life-support requirements would be eliminated for the mechanical astronaut, and the element of human risk would be eliminated from the flight.

A lunar station could be built, tested, and provisioned by such robot astronauts before a human is sent to make direct astronomical and geophysical observations. Space exploration could be expedited and great savings could be realized by taking short cuts with a robot that would be unthinkable where human lives might be at stake. Certainly, the technical difficulties of reproducing the movements of the 15 finger articulations and actuating them identically with those of a living hand are no more formidable than those of projecting human life-support requirements for a lunar voyage, especially when it is understood that robots will make one-way trips.

Machines are expendable while men are not. It is, therefore, in their possible military application that such robots may prove of greatest value. As expendable pawns in tactical experiments in war games,

the robots may usefully demonstrate that every clever tactic employed in battle can be trumped. It is fondly hoped that the war-games strategists will be so bemused with the robots that war will be relegated to these machines and their masters, leaving the rest of mankind to a better fate. Thus automation, which now appears to the shortsighted as a threat to the economic livelihood of man, may be the means of using machines to take over the hazards of man's most odious and useless activity, the waging of war.

Indeed, machines which speed communication already have reduced the possibility of war. It is generally agreed that the human race resorts to war from lack of understanding that results from failure of communication. As means of communication have improved in rapidity and effectiveness, informa-

Imagine picking up your phone and chatting with another businessman in, say, Pakistan; you hear him in English and he hears you in Urdu.

Automatic language translation, which Col. Stapp envisions in this article, is still some years away. Scientists already have stimulated artificial larynges to make noises within both male and female voice ranges. But at this point the machines sound deathly sick in both genders.

tion has been transmitted with increasing clarity and detail about crucial events, with the result that national leaders talk and arbitrate their way out of crises that formerly would have been cause for war.

Promise of new understanding

Electronic technology also has made outstanding contributions to news reporting with the invention of the video-tape television camera and orbital communications satellites. Universal audio and visual reporting on national and international affairs has advanced the democratic process by keeping the public fully informed. No tyranny can long survive the power of informed public opinion.

Pictures, however, are but an incomplete medium of universal communication, even as words often

are. Diversity of languages still presents the most formidable barrier to free exchange of information, still throws up obstacles of delay and distortion in the translation.

Electronic technology offers the best hope of a way out of this dilemma. Computers with vast memory drums and instant recognition of an image or a sound will be able to translate both written and spoken languages instantly, matching them with counterparts in other languages, sorting words into proper grammatical order and presenting the result in sound or in writing in the chosen idiom. The problem is formidable, but progress is being made.

Here, the compactness of solid-state electronic components, which amount to miniaturizing of transistors and printed circuits, will prove ideal for handling the complexity of circuits with the reliability and sensitivity required in translating machines. A billion solid-state components can be packed into a cubic foot of space.

The idea of a wrist radio, considered science fiction ten years ago, gives way to the serious consideration of a television set in an engagement ring. Tomorrow may see universal long-distance, individual, video-audio communication via orbital satellite relay, with the words instantly translated into the appropriate language for the listener. The last great barrier to human understanding will be electronically erased, and with it all apartheid of human thoughts relegated to language chauvinism.

Education begins with learning how to communicate in written and spoken languages, through visual images and music, and in mathematical symbols. It continues as a process of gathering and organizing information for recall when it is needed. The next stage is learning how to rationalize information for solving problems and for application to real situations. Education becomes a creative function when information is projected into invention, discovery, the synthesis of new knowledge, the exploration of the unknown, the formulation of ideas and concepts.

To be educated is to have learned how to learn; to have learned how to communicate learning; to have learned how to translate learning into action; to have learned how to create learning; and by all these means, to have learned how to seek and understand truth.

The ever-increasing avalanche of knowledge from the contemporary

technological revolution would be overwhelming were it not for help coming from the application of technology to teaching and learning techniques.

The reiterative and rote memory aspects of learning can be accomplished with teaching machines that make auditory and visual presentation of material, put the student through training exercises and tests, and spare human teachers from drudgery in order to use their talents in the intellectual functions of teaching that are beyond the scope of teaching machines. The student is spared lost motion and is permitted to set his own learning pace. The method of presentation will be designed to maintain maximum interest and learning effectiveness. The time of day, most efficient work-rest cycles, the internal chemistry of the student, and the conditions of his classroom environment are factors that can be rendered ideal for rapid, effective learning.

Subjects requiring logic and problem-solving will utilize computers with memory storage of entire courses of study, and teachers will be able to concentrate on the more creative levels of learning. The students selected and prepared by the machine and computer phases of teaching will be so well grounded that no time will be wasted on reviewing factual material, thus allowing the teacher to emphasize the development of ideas, and, in technical material, application and experimentation.

Graduate study and research can be facilitated by two other functions of computers: information retrieval, whereby storage memories can supply bibliographies or separate references, statistical tables, formulas for computations or any other desired information instantly from a constantly updated memory library; and operations research to evaluate statistically the factors of a research problem and to determine the most feasible plan for investigating it.

Eventually, working knowledge will be a partnership between the scholar and his memory and computer mechanical aids, in order to relegate to machines those functions which they can perform for him, leaving his mind free to concentrate on aspects of knowledge with which machines cannot cope.

With ever better tools, the effectiveness of human effort will be correspondingly amplified. This in turn will place greater emphasis on better minds, and on better human attributes demanded by many spe-

cial requirements in tomorrow's world of sophisticated technology. Having conquered his environment and equipped himself with technical aids that stretch his capabilities, man is confronted with the most formidable challenge of all—how to make a better man.

The evolutionary and genetic approach cannot keep pace with changing requirements for ideal human specifications. Indeed, accelerating the evolution of man becomes increasingly important lest he be overtaxed in adapting himself to the environment created by his own inventions. The test-tube children of Aldous Huxley's "Brave New World" cease to be an amusing satire as modern biochemistry aided by electron microscopes unravels the chemistry of genes and the architecture of protein molecules. Their modification by radiant energies, the actions of enzymes and catalysts, may yet permit the control of germ-cell composition and the direct modification of the resultant human produced from a controlled beginning. Insidious effects of disease and chemical noxious agents can be eliminated during gestation and subsequent growth to maturity.

This growth and this maturity can be controlled with ideal nutrition, hormone levels and programmed living activities to maintain health, youth and effectiveness at an optimum far beyond the normal life expectancy of today. The elimination of degenerative disease and the prolongation of normal optimum anatomy and function of human organs will crown this creative achievement. A superior being living at physiological and mental age of 40 to a chronological age of 160 will be man's most magnificent scientific achievement.

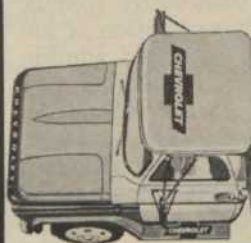
Mankind groped and fumbled with flint and bone tools for bare survival through 25 millennia of the European Ice Age, stumbled by trial and error to the dawn of civilization in ten more millennia, walked with increasing purpose and effectiveness for 15 centuries to the Renaissance, then found the key to five centuries of unlimited progress in the scientific method.

This great legacy of technical achievement will enable man to better himself by conquering all the adversities of his environment and exploring the universe beyond the confines of his native planet, provided he does not fall victim to the 30-minute war followed by the everlasting peace which could be unleashed from 100 missile sites. **END**

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Lonely struggles with clashing advice often precede actions by the President

haps the lag in developing professional standards resulted in individual hardships giving rise to complaints about our sprawling bureaucracy. Washington administrators have made some headway in dealing with the problem.

One of our conservative friends, a critic of the concentration of authority, recently expressed admiration for what he termed "a new professionalism" in the federal departments.

Even though Congress must often reach compromise and consensus, it can act very quickly when it needs to. This was demonstrated in the summer of 1963. On July 22, President Kennedy sent Congress a message calling for legislation to stop the threatened railroad strike. By August 28, Congress completed action on legislation to require compulsory arbitration on certain issues of the labor dispute and to prohibit the strike.

One fact which makes this speed seem even more remarkable is that the Senate Commerce Committee, which had to act on the legislation, was at the same time considering the controversial public accommodations provision of the civil rights bill. Many of its meetings had to be held at night and on Saturday.

Government growth

The effect of government growth in Washington certainly is related to any appraisal of the President's problems, for the enormous increase in the volume of judgments which have to be rendered in departmental affairs eventually is reflected in the pressures upon the chief executive.

What a change from the days of George Washington, who reportedly insisted that every letter from a federal office should bear his signature.

It is axiomatic that only the tough decisions are made at the White House. "The easy ones are settled down the line," President Eisenhower told his successor.

My former White House colleague, Ted Sorensen, a key assistant to President Kennedy, was in an excellent position to evaluate the procedures favored by Mr. Kennedy. He maintained that there was no systematic formula for Mr.

Kennedy's decisions. This I believe to have been the case under most other presidents. The patterns have reflected the personality and intellectual qualities of the executive.

Mr. Truman apparently took pride in assuming responsibility for decisions. I recall visiting him once as a member of a congressional delegation seeking to induce him to take a certain course. After saying "no," he added with a big, friendly smile—but in a tone that convinced us he meant it: "And this is my decision. Don't you boys go back up there on the Hill and say Dean Acheson did it."

President Eisenhower was inclined to delegate questions to advisers, generally cabinet members. Presidential friends also have generally been available for help in special situations and have been used by modern presidents, who find specialized knowledge an indispensable requirement in this scientific age.

Still the President, having the final responsibility for decisions, must become familiar with many intricate questions and must in a major crisis base his policy on judgments that extend beyond technical and specialized considerations. His personal knowledge of history and government, of the nation's economy, its people, the Congress—and indeed the world's life—must often be tapped. His meditations upon a multitude of complex matters must precede the final decision on questions of vital concern. He consequently becomes on occasion a lonely individual, struggling with conflicting ideas and advice.

Assistance and advice for the President come from staff members with competence in a variety of fields, the cabinet members and a vast army of technical aides including independent sources who may not always regard their service solemnly since, as has been said, "their daily salt did not come from the presidential table."

Even in day-to-day routine the President carries insuperable burdens. Without help given by aides who surround him and determine when, how and by whom the protective wall is penetrated, he would scarcely find any satisfactions in

filling the world's pre-eminent office. He must look at scores—sometimes hundreds—of documents every day and must be sure that the appropriate initials are in the proper place before affixing his signature.

Congressional decisions

From the point of view of the member of Congress, decisions on legislative matters usually involve a great deal more than the wishes of the President. Even the President's warmest friends and closest party cohorts may be unresponsive at times. Attitudes of the folks at home must be taken into account if the member of Congress is to continue in office.

The congressman's task—balancing the local and regional interest with that of the nation—must be sympathetically viewed by presidents, particularly those who have served in Congress. A president represents the national interest and must picture the national goals. But the congressional leader has the map—he knows what will be required to reach them. This requires the President to negotiate—a procedure that has political and ethical guidelines which both sides must respect.

A good example of its use was the handling of the Senate action on the 1964 civil rights legislation. Senate Republican Leader Everett Dirksen was committed to civil rights, but he was concerned about some of the mechanisms proposed in the measure as submitted. He asked for and received the modifications that reflected minority party participation. This action helped to give the bill a bipartisan flavor—Congressman William M. McCulloch, ranking Republican on the Judiciary Committee, had helped significantly in the House—and virtually made the final results a classic example of government by consensus.

We pride ourselves, and rightly so, on the system established by our founding fathers which called for separate executive, legislative and judicial branches. But it should be noted that no cognizance was taken of the role of political parties in this dynamic process.

James Madison in *Federalist Paper No. 10* talks of the new Constitution being designed to eliminate the need for parties. In practice, however, we have found that to make our governmental institutions function properly, the party system is essential. It is through the party system that we bridge the gulf between the executive and legislative

branches. At the same time, because of the nature of the structure that our founding fathers created, we find that the parties themselves are not unduly disciplined and that majorities in the Congress are built in many cases on a bipartisan basis.

So the process of policy formulation and decision-making in Washington depends on focuses of political power in both the executive and legislative branches. As a practical matter, for example, the President's program must be shaped to strike a working balance among the interests and views of actual and potential supporters in Congress.

It is precisely because of this method of building majorities that the role of Congress in the decision-making process is such a significant one. The party mechanisms give to committee chairmen and such officials as the speaker of the House and the majority and minority leaders of both houses a major responsibility not only to review programs proposed by the President for enactment, but also to contribute to the final shape of these programs.

Above all things, the House of Representatives is jealous of its special decision-making powers over taxing and spending. In an age of astronomical requirements for defense, this has significance in decisions on the budget. The President, helped by the Bureau of the Budget, proposes; the Congress disposes.

I recall a comment by the late Congressman Prince Preston of Georgia that puts in a capsule the basic doctrine regarding this congressional control. We were standing outside the House Office Building when a car from the Pentagon disgorged a general with staff members carrying documents, all headed for an Appropriations Committee meeting.

"The Republic has good foundations if this picture can be maintained," my colleague said. "The generals come to us to defend their figures and plead their case."

The civilian—not the military—has the mandate to make the final judgment.

And the civilian agency in control here is the Congress.

All the conflicts of American society seem to converge on the House and Senate chambers. These conflicts in our culture and economic life are not all resolved by legislation, but they are reconciled to the extent that national policy makes reconciliation necessary. The congressional committees render the indispensable service of hearing all sides on behalf of the Congress

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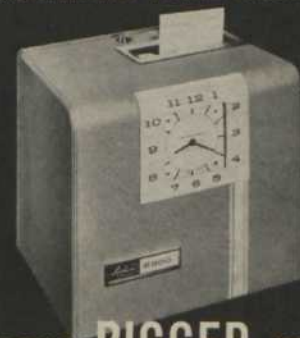


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DECISIONS

continued

in conducting negotiations with the departments.

Sometimes the Congress may begin these negotiations with a fiercely antagonistic attitude, as in the debate over the so-called status of forces treaties. Legislation was proposed in Congress designed to take away from the host country jurisdiction over the trials of U. S. military personnel charged with crimes committed on foreign soil. Only the patient and painstaking presentation by State Department representatives of the technical reasons against such bills dissipated the hostility growing out of incidents abroad. I remember this well.

Some of our most complex decision-making procedures involve the State Department and Congress. Foreign policy is basically an executive function, but Congress has its definite functions growing out of the purse-string control and the confirmation of appointments. I assume that my appointment as assistant secretary of state for congressional relations in 1961 was based on President Kennedy's feeling that a former member would have access to congressional thinking. It worked out fairly well, I think. I knew the key committee chairmen well enough to deal in a highly informal way with them.

When I served as a member of the House Foreign Affairs Committee, I often saw this interplay between branches of government in the efforts to develop a foreign aid program that would not only meet national security needs as seen by the President, but also win the support of Congress and of the people. Having the opportunity to observe this process from a different perspective as assistant secretary of state for congressional relations, I found that the same forces were at work and the same adjustments had to be made to meet the requirements of our system of government.

When the President vetoes a bill, his own convictions normally are involved. But in many instances it is because a responsible official gave him a comprehensive briefing with a clear recommendation to withhold approval. Even veto decisions involve the interplay of the different levels and branches of government.

Shortly after World War II ended, Senator J. W. Fulbright and I induced the Congress to pass a bill liberalizing sale of government lands to returning veterans from

rural areas. I learned that the Department of Agriculture was about to recommend a veto of our bill. If this happened, it would be most awkward to attempt to get the President to overrule a cabinet member. So it was necessary for me to argue the case before the department chiefs. I convinced them that the legislation was sound. They withdrew their opposition and the President signed our bill.

Incidentally, had the President received an adverse recommendation in this case his veto message would doubtless have been written in the department.

I believe that good government administration and decision-making also profit by security of tenure for the professional civil servants. Ideally, enough shifts in top positions should occur periodically to bring freshness and popular responsiveness to bureau operations. I feel that, if private business leaders could see the Washington viewpoint and the complexities of federal operations, this would remove some of the adverse feelings about national government. I remember, for example, what an Arkansas businessman said to me one week after he had come to the capital to fill a major departmental position temporarily:

"I hadn't been here 48 hours before I was convinced I would be lost without the help of the experts who had spent years in obscure and dedicated service back of the front office. These were the bureaucrats I had been damning." We suffer from mediocrity in spots, of course, but conditions improve as we dignify the public service through a more realistic salary scale and other devices to recruit able people.

In relationships between the federal government and the states and localities, the party system serves to preserve the federal structure created under our Constitution. Because our parties are primarily state-based, rather than national, the members of Congress tend to support the interests of their states and localities and to resist federal encroachments. Thus, in the highest councils of Washington, the congressional leaders who take part in discussion are able to bring to the process of policy formulation the perspective of their home areas.

Though the political acceptability of any action has to be a guiding principle of governmental decision-making, sometimes decisions must be made that are risky politics.

The Administration's far-reaching trade act proposed in 1962 was

based more on statesmanship than on politics. This historic act resulted in a greatly liberalized trade policy, which our leaders were sure was necessary for international political reasons as well as economics to deal better with the Common Market.

However, the drastic reduction of potential tariff protection of domestic industries and the consequences for employment made this a highly controversial measure in an election year. But the long-term effects outweighed the short-term political risk in the minds of the decision-makers.

Open decision-making

All public officials are sensitive to the image they project through the media of public communication. It is for this reason that the press is often referred to as the fourth branch of government. Because of the open nature of our society, it is almost impossible for decisions to be made in secrecy. All participants in the decision-making process are well aware that what they are thinking and planning is likely to be made known to the people through radio, television, newspapers and magazines at all stages of policy formulation. By following what has sometimes been referred to as the law of anticipated reaction, the President and the Congress often reveal their dependence on the public media.

This access to the public through news media should not be viewed as an emergency power. In the normal functioning of the federal government, it is good that information can be so widely distributed. "The President," said one of my colleagues, "should be a window rather than a mirror."

To the extent that Washington decisions in high policy matters must rest upon public opinion, the responsible policy makers must respect *vox populi*.

An insensitive Capitol guard failed to show that respect one day. A retired farmer had traveled a long way to see the structures his tax money had helped build. He drifted into a prohibited area of the Capitol and the guard shouted, "Get back there. Who do you think you are, anyway?" He got this rebuke, "Nobody, nobody much, just one of the owners."

On all levels of government those who make decisions must remember they are serving the people and that, in the complexities of negotiated decision-making, politics—in the best public-interest sense of the word—must be the ruling force. **END**



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HOW TO RUN A GROWING COMPANY

These insights into the dynamics of growth can help your business in the years to come

IF YOU'RE with an expanding company, chances are it is undergoing growth problems which demand full understanding if they are to give way to a successful maturity.

Successful companies vary widely in size, type of industry, capitalization, technology and markets. And they have all experienced problems peculiar to themselves.

Yet a study of 385 companies discloses growth patterns that seem to apply to all companies; clearly definable stages of infancy, transition and maturity. Whether the problems they bring develop into crises depends on the company's understanding of:

- ▶ The stages of growth through which all companies pass.
- ▶ Strengths and weaknesses of a company at each stage.
- ▶ Symptoms of developing crises which enable a company to head off problems and make a smooth transition to maturity.

The stages of growth

Just as a human grows from childhood through adolescence to maturity, so every company passes from an early phase through a transitional stage to one of stable maturity.

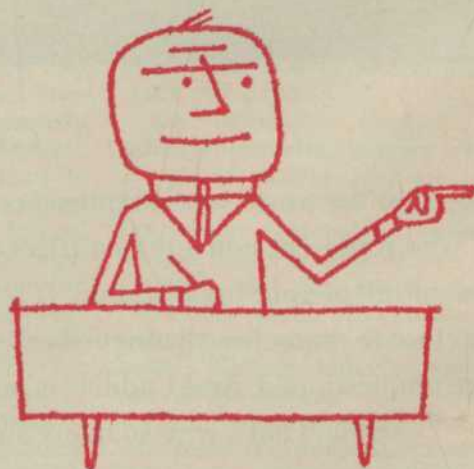
During its first phase of growth, the company achieves its success under one or a few outstanding individuals, as shown by such successful ventures as E. I. du Pont de Nemours & Co., General Motors Corp., International Business Machines, and Standard Oil Co. (New Jersey).

The Ford Motor Co. is another classic example. The company attained early leadership because of Henry

Ford. His was the vision of a high-quality, low-priced automobile everyone could own. And his was the mechanical intuition that led to successful adaptation of the assembly line.

Almost any small company has its Henry Ford. There is Crane & Co.'s early history under the iron master, Richard T. Crane; Lear Inc., under William P. Lear; and a thousand others.

The struggles of the entrepreneur are well enough known. But we do not always realize that the early stage of growth has recognizable characteristics which the top executives of the infant organization must



Multiply self - -

recognize to avoid blundering into problems that could be avoided. These can readily be identified.

Centralization of authority. Whether he wants to or not, the leader of a young, small and growing enterprise will have to make most decisions of importance. People have not yet had opportunity to learn to work as a team. They want to use methods they have already proved in past experience.

For the young company, centralization of authority is good. When one strong man makes most of the decisions, there is firm direction, consistency in operations, fast, flexible action. If the top man is something of a genius, as entrepreneurs frequently are, the important decisions will have the stamp of his unique abilities.

But it is important also that he know when to let go to get subordinates to make important decisions for themselves.

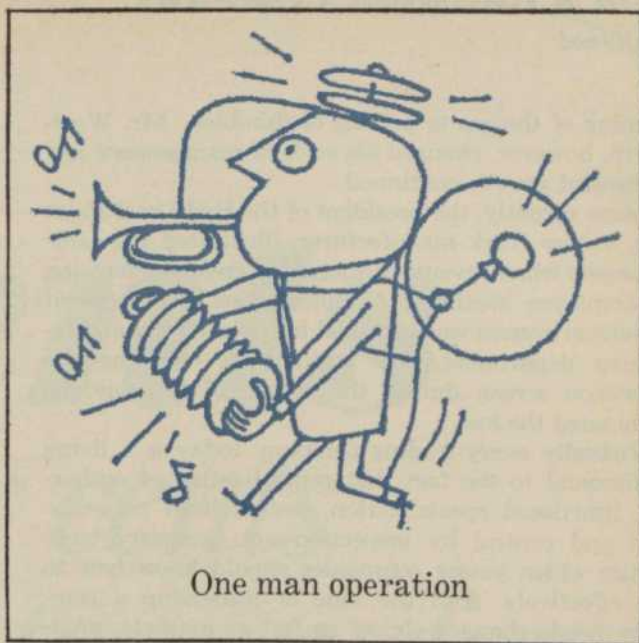
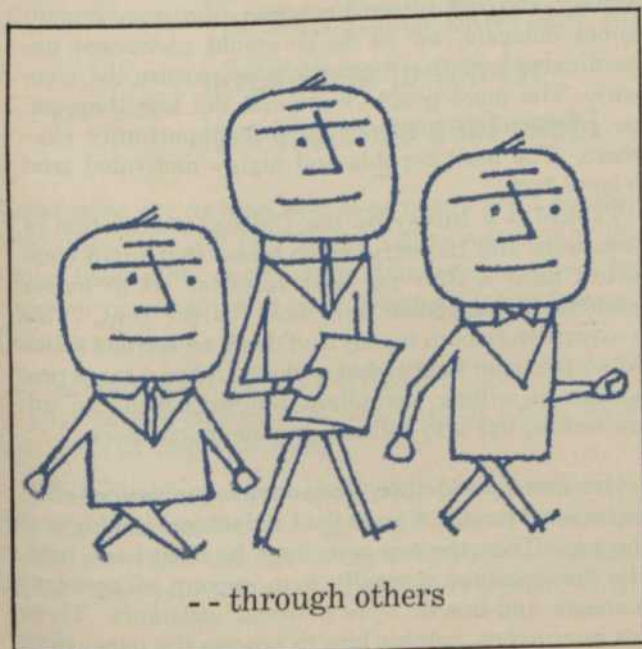
This centralization is most effective during the early years when everyone is in a face-to-face relationship and communications generally are excellent.

Functional specialization. The early success of most large companies depends in large part upon their ability to do an outstanding job in such primary functions as engineering, manufacturing or sales. It is no accident that Walter P. Chrysler was an expert mechanic. William C. Durant, the early leader of General Motors, was an outstanding salesman. It takes highly expert skills to develop a product and create markets for it.

During the early stage, most top managers continue to be engineers, salesmen or accountants first, and managers second.

This is highly advantageous at first. It gives the company tremendous momentum. The inventive genius and promotional flair of Isaac Singer were necessary ingredients to the early success of the Singer Co.; National Cash Register Co. had to have its John H. Patterson to publicize an unknown product and create a demand for it.

But because of this functional specialization, there



is often little planning for the future progress of the company, little organizing to maintain low costs and high efficiency or controlling for profitable results.

As more people come into the company, new offices and plants are opened and staff groups begin to grow, the opportunities for staff and organizational slippage become great. Where the small, streamlined personalized organization can be hard-hitting and efficient, the larger, dispersed company tends to become slow moving, wasteful and inefficient if it maintains this centric approach.

There are lessons to be learned from the success of Sears Roebuck and Co. during its early years of growth from mail-order catalog to retail store sales. To encourage initiative and fast, flexible action where it counted—at the point of sale—Sears gave managers wide latitude. So long as they produced profits, they were largely independent.

The company soon found, however, that there were as many different practices as there were strong personalities. Sears moved into its transitional period with great effectiveness. It has developed a formalized organization. To provide the proper limits for the wide, decentralized authority delegated to store managers, the company retained key corporate services on a functional basis and centralized critical areas of decision-making, while still giving the individual manager plenty of leeway.

Control by inspection. A vital requirement for every company is the ability to control results to ensure that customer requirements are met and costs held in line. During the early stage of growth, most control is by personal inspection of the top executive.

Robert Ingalls, founder of Ingalls Industries, is an example of a president who maintained close personal control by monitoring all cost reports, turning off lights to economize on electricity and salvaging parts carelessly tossed aside in the production shop.

Frank W. Woolworth, founder of the five-and-ten chain, kept a finger on every detail in his stores, from

RUN A GROWING COMPANY

continued

burning of the gas to pricing of thimbles. Mr. Woolworth, however, changed his style of management and successful growth continued.

More recently, the president of the Red Devil Paint Co., a New York manufacturer, illustrated the same approach when inventory shortages created suspicion of employee stealing. A conspicuous closed-circuit television system was installed in the shipping and receiving department. By periodically checking the television screen during the course of the day, he eliminated the loss.

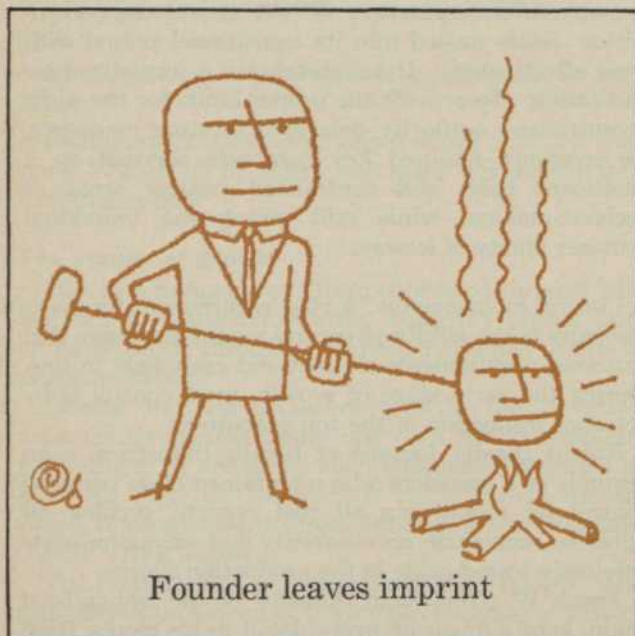
Virtually every leading company today is a living testimonial to the fact that centralization of authority, functional specialization, personalized organization and control by inspection are necessary techniques which young companies should know how to use effectively. But the kind of leadership a company needs changes almost as fast as markets, products and the size of the company itself change.

The important thing for business executives is to be able to recognize when their company has outgrown its infant stage and how to go through the transition to a stabilized kind of management. This evolutionary growth is imperative if expansion, diversification and profitability are to continue without interruption.

The transition period

Just as the boy who has outgrown his childhood displays the characteristics of adolescence, so we find the growing, diversifying company begins to exhibit the symptoms which spell plainly that it also is changing. Here are some of the signs:

Failure of one-man leadership. Eventually the job becomes too big for one man. The chief executive becomes overburdened. If he knows what is happening he will change his style of management. This frees the organization for further growth. Too often, however,



Be ready for transition

the first shadow of disaster must fall before he is impelled to do it.

Again the career of Frank W. Woolworth provides a good example of a top executive who changed. The unremitting physical strain of running the company single-handedly finally put him in the hospital. Only then did Mr. Woolworth discover that he had built a team that was capable of running the business. He did not have to do it all himself. This was the turning point in the growth of the Woolworth stores.

Turnover is high. During the early years, the challenge of new opportunity, the promise of future improvement, rapid change and promotion have been enough to keep good people interested. As they become adjusted to their jobs, accept company policy and procedures and learn to work effectively, people want more freedom to do things their own way and to make their own decisions. Because controls are fragmentary and the future uncertain, top management cannot delegate, for to do so would encourage uncoordinated activities that might jeopardize the company. The more people want and the less they get, the greater their tendency to seek opportunity elsewhere. The most capable and highly motivated tend to leave first.

Typical is a survey by the Chicago Association of Commerce and Industry which found that small companies have a 32.5 per cent turnover while longer established companies have only 19 per cent. This is expensive in both money and drain on trained skills. When the team finally shakes down, it has a large proportion of willing, compliant followers who can follow orders, but who will not provide much spark.

Assistants proliferate. The young organization is like an inverted funnel. A great deal of decision-making is at the top. Then the top man finds he must have help. His first recourse generally is to appoint an assistant manager and one or more personal assistants. These act as crutches, helping him to process the paper work

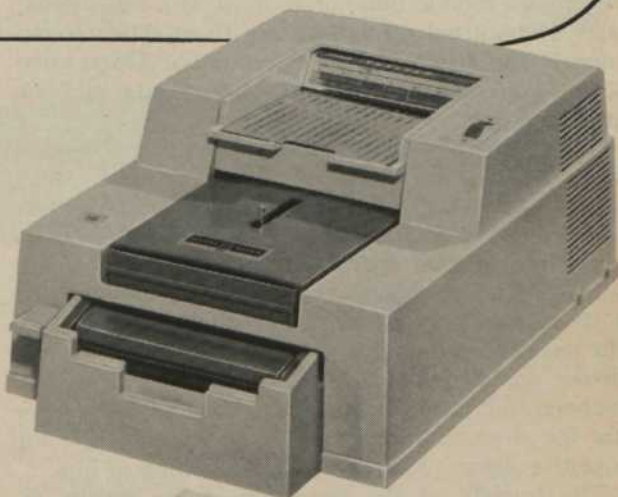
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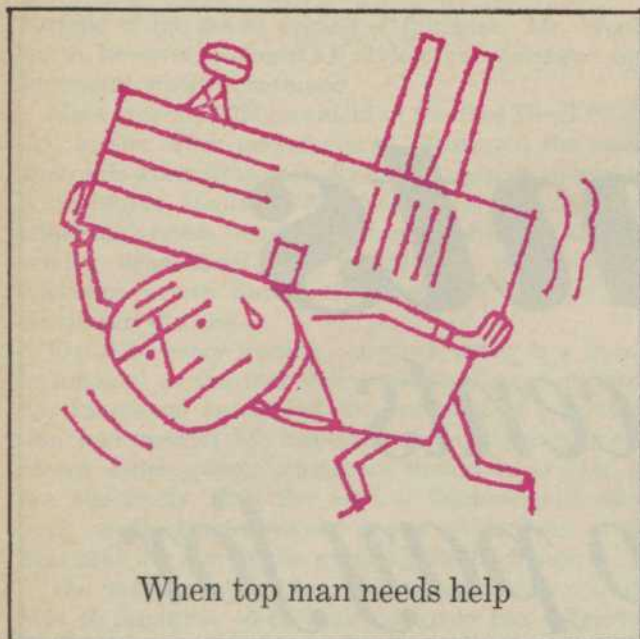


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RUN A GROWING COMPANY

continued



and to make the decisions that properly should be delegated to lower levels.

Communication problems

Most often, these result from proliferation of organization levels between the functional heads and the operating positions. Requests and suggestions from the bottom will be short-circuited before they get to top officials who should know about them.

With every level of growth beyond the first, communications tend to deteriorate until, at a transitional stage, a concerted effort is made to establish sound channels for disseminating information. Only when this formalized approach is undertaken is the problem eliminated.

The net result of this growing inadequacy of leadership is loss of effectiveness, increased costs, lower profits. Most often this can be observed first at middle management levels. Supervisors who are directly in charge of machine operations and field selling will sense that the company is beginning to fall behind in its management capability. Agitation for change will usually originate at these levels. However, the further removed the decision-making executive from the operating level, the more insulated he tends to be and the slower his reaction. In many cases the top executive doesn't know what is happening to him.

The tragedy of the transition is the strong, capable entrepreneur who has the ability to create a great business enterprise, but who does not learn how to make the enterprise grow beyond his own personal scope.

The mature stage of growth

The prime requirement of growth is for the top executives of the company to learn how to multiply themselves through others.

This means change from emphasis on operating

work to a sharp focus on management work in every management position.

Howard Braun, vice president of Pacific Gas and Electric Co., says: "As the company grows, the need for the best possible management techniques increases in proportion." An AMRI Management Research Institute study shows that top executives during the early stage tend to devote 50 per cent or less of their time to managing. As the company matures, high level managers generally increase to 90 per cent the time they spend managing.

To facilitate the transition to maturity, top executives can take these specific steps:

Develop team-centered leadership

This requires that managers at every level must learn to put the interest of the company first, their own special preferences second. This has been accomplished to a substantial degree in all successful companies. The important requirement is a climate in which every manager is encouraged to support his own ideas and point of view, but after the final decision, each will support it as if it were his own.

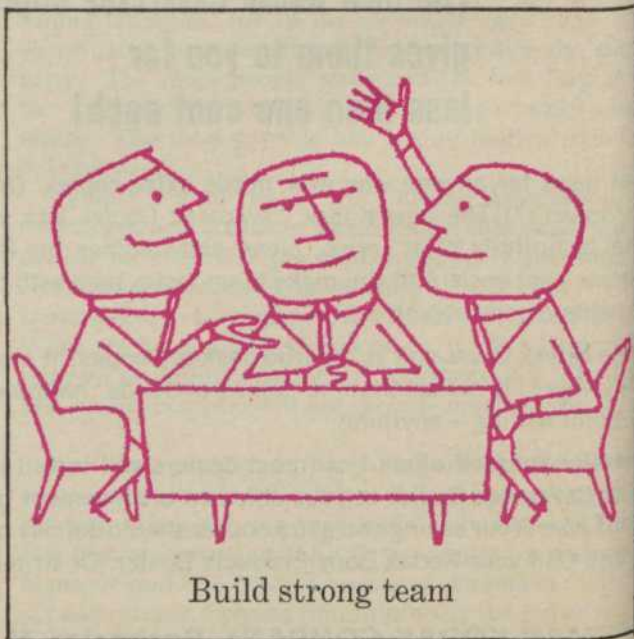
Change to logical organization

Overlap, duplication and confusion tend to multiply if personalized organization is prolonged. It becomes necessary to define the responsibility and authority required to get the job done most effectively and to train and develop people so that they can concentrate on the important work and perform it with the least organizational slippage.

To change a personalized organization to a logical one takes time and requires management skills.

The first step is to establish organizational objectives. What are the long-term product, market, financial and research goals? Until we have these clearly defined, we don't know what to organize for.

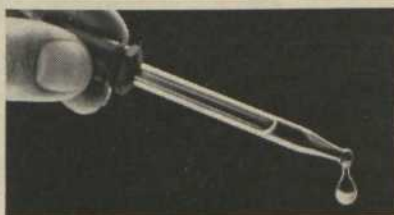
To illustrate, Armour and Co. once concentrated largely upon livestock operations. But eroding profits caused Armour to re-examine its basic objectives and undertake diversification into such related fields as



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continued

grocery products and agricultural chemicals. Now the larger share of its profits comes from these new activities.

The second step is to survey and define the responsibility, authority and relationships between jobs. It is a good idea to ask each manager to write out what responsibility and authority he thinks he has delegated, and check this against the definitions of his own subordinates. Often there will be 40 per cent or more disagreement, which points to substantial room for duplication and overstaffing.

Once the organization is clearly defined, you can begin to improve it. Each executive can supervise the maximum number of people for whom he can effectively plan, organize, lead and control. Organizational levels can be reduced to a minimum. This is also the time to make sure each manager reports to only one boss and is accountable for profit-oriented results.

How much time does it take? Most companies count on a minimum of five to seven years to develop a sound, logical organization structure. It takes this long for the people involved to accept the changes, to acquire the training and skills they need. Koppers Company required some seven years to make the change-over; Carrier Corp. proceeded carefully over a period of about 12 years; Prudential Life Insurance Co. accomplished its major changes in some eight years.

Decentralize on a planned basis

Decentralization can best be accomplished if there are adequate controls to provide limits for exercise of authority. The company needs to develop sound performance standards, create a reporting system that will keep each manager fully informed of his current status and evaluate performance to ensure the plans are met effectively.

General Mills is a case in point. Under its 25-year plan, the company felt that the way to get effective help from all its managers was to decentralize so that people doing operating work could make most of the decisions related to it. General Mills established a logical pattern of planning and control.

General Motors, now a model of decentralization, at first divisionalized, but gave division managers too much authority. One result: At the end of World War I, division managers were making the automobiles they preferred, refusing to exchange operating secrets, and piling up some \$60 million in excess inventory. This in part triggered the move towards General Motors' transition under Alfred P. Sloan, in which was developed the concept of centralized policy and control but decentralized operations.

Maximize freedom and opportunity

The key requirement is development of policies that will establish clear limits of action within which each person can make his own decisions. No matter how small the company, careful development of this kind of planning structure will provide the guidelines for profitable growth.



Opportunity for each individual comes from helping him make use of his abilities and rewarding him for his contribution. As Lee Iacocca, vice president of Ford, says, "Our key managers have no more important job than the development of other managerial talent. No company can have a consistently strong product line unless it first has a strong management team."

Litton Industries also provides wide individual freedom of opportunity. Litton organized its divisions under generally autonomous managements which are accountable for specific results and are given broad authority to attain them. Each individual is measured in terms of his contribution.

Reward for contribution is vital. While the form of incentive may vary, there is ample evidence that the companies that maintain leadership provide generous monetary rewards for the managers who accomplish results. Establishment of understood and accepted standards to serve as a basis for the incentive are important. These should be personal standards, related directly to the performance and results attained by individuals. Again, this is best accomplished by clear definition of agreed-upon objectives, programs and budgets.

There is little doubt that strong companies are built around strong, enterprising men. The key requirement as the organization grows is that outstanding people learn to guide and channel their own efforts toward continued profitability. More than this, the strong manager must learn that he need not go it alone. By multiplying himself through others he can accomplish more himself and provide challenging opportunities for all members of his team.

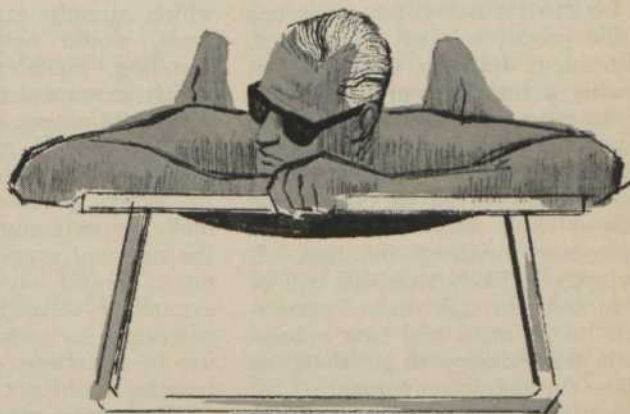
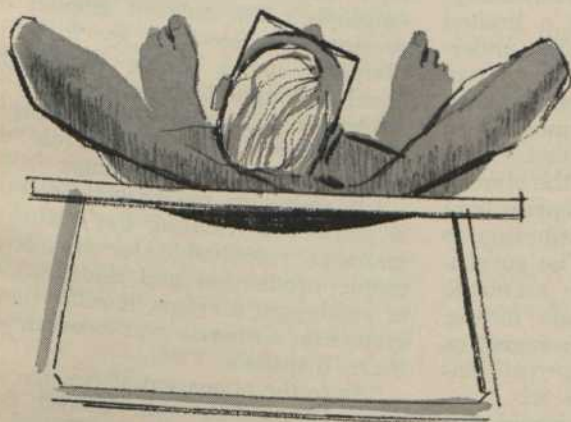
—LOUISA A. ALLEN

Management consultant

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FRANK TALK

continued from page 34

were cut. Perhaps even more important than the dollars released from taxation was the psychological effect of the deliberate federal policy to rely on the spending decisions of private individuals and businesses as an alternative to larger government spending to spur the economy.

Letting the private economy bring about robust growth, lower unemployment and even relatively stable prices has been almost universally recognized as successful.

A managed prosperity?

Some other federal economic decisions have not been as widely praised. Some that are now being put forward by the Administration will be opposed. This is apparent in the response of business leaders in the NATION'S BUSINESS questions on the proper role of government.

President Johnson seems set on creating a managed prosperity for the country. He knows that the talents and capacity of business and industry are necessary for this. His dream seems to be to outlaw the business cycle and to achieve full employment without inflation. It now appears likely that this will be attempted through more government involvement and new inducements for industry to go along, as well as through lower taxes.

Multimillion-dollar contracts for military procurement or space research tend to muffle protests about big spending in an area where such contracts are awarded.

Subsidies for public works or loans to build plants in economically depressed areas attract some takers.

Special tax breaks are being discussed to get industry to engage in government-favored research. New loans and grants for urban programs, for education, for welfare and for harnessing and federalizing natural resources are being sought.

President Johnson has called for a partnership of government and private enterprise to sustain future economic momentum.

J. Ed. Warren, president of Cities Services Co. and chairman of the American Petroleum Institute, agrees that bridges of understanding should be built between the people in industry and the people in government.

"Antibusiness and antibigness attitudes and policies of government are as obsolete as the horse and

buggy, ignoring economic change," he says.

Implicit in regulation should be these considerations, he continues: "Will these policies foster economic growth and create jobs? Or are they blind adherence to outworn regulatory concepts?"

"I can illustrate what I mean by referring to profits. Government officials should be strongly for healthy capital accumulation. Industry must create vast amounts of capital just to stay up to date and competitive. And businessmen have got to stop being against change simply because it is new and untried."

On the subject of business-government cooperation, Pennsylvania Railroad Chairman Stuart Saunders tells NATION'S BUSINESS:

"It seems to me that the government should extend its role of collaboration with the private sector in finding the best solutions to economic problems. This relationship, which already exists on a limited scale, would develop the understanding, confidence and respect which grows out of cooperation toward attainment of common goals.

"The federal government has a responsibility to provide the climate in which private enterprise can make its maximum contribution to the national economy. The government should encourage economic expansion through private means, reserving its own vast powers for use in situations where private enterprise could not do the job.

"Economic planning would become more a joint responsibility, with qualified private citizens contributing their skills to public service. Government intervention in the functioning of the economy would defer whenever possible to private enterprise, and would take place as the last alternative, instead of the first consideration.

"The restrictive aspects of government regulation would, of course, be available to guard the public interest. Primary emphasis, however, would be given to constructive regulation which would provide incentives for the private economy.

"This collaboration by the government and the private sector was demonstrated successfully in the reduction of federal income taxes early in 1964. It represented a fundamental change in government fiscal policy, a decision to give the private sector of our economy an opportunity to stimulate the nation's economic growth.

"The tax cut has restored optimism, confidence and initiative, and has caused private industry to in-

crease output and to make record investments in plant and equipment."

Clear rules needed

Maxey Jarman, chairman of Genesco, Inc., big shoe and apparel manufacturer and distributor, comments:

"In my opinion the federal government could be most helpful to business by making clear the rules of the game and not having these on the basis that business never knows from one day to the next what the rules are.

"This would apply to Internal Revenue Service, Securities and Exchange Commission, Federal Trade Commission, Justice Department, National Labor Relations Board and other organizations. Business is hampered by not knowing how to plan its operations.

"With the intensification of inter-industry competition, business can offer the best opportunities to its employees, the greatest amount of service to customers, by forward planning under stable monetary, fiscal and regulatory policies."

Detroit Edison's Walker Cisler gives these views on the role of government in the economy:

"It seems to me that if society is justified in holding the business manager responsible for the economic production and distribution of goods and services, it must then grant him authority and freedom to make decisions.

"As to the allocation of resources, the government's role should be limited to facilitating the efficiency of the free-market mechanism. In a free-enterprise economy, consumers' decisions, acting through the medium of profits and price competition, are the mechanism by means of which resources are allocated. The federal government should not direct the allocation of resources or capacity. It should strive only to keep this allocating mechanism operating effectively.

"The expectation of general price stability is certainly important. However, this does not mean that prices of individual commodities should not fluctuate. Such price changes are necessary to reflect conditions of demand and supply and are an essential part of the free private enterprise system. However, when the general price level rises significantly, inflationary expectations may be generated which, in turn, may lead to speculative activity and eventual breakdown.

"Lack of confidence in the soundness of the dollar is another way of saying that inflationary expecta-

tions have become generalized. The result is basically the same whether the holder of dollars is a foreign or a U. S. citizen. In either case a 'flight from the dollar' may occur.

"Profitable investment opportunities are most certainly necessary for the full use of economic resources. But even more significant is the marginal investment profitability that determines the allocation of resources. It seems to me that this point is more important because it is such an essential part of the free-enterprise economic process. Therefore, there should be alternative profitable investment opportunities.

"I would like to affirm my contention that government should not produce and distribute economic goods and services in competition with private enterprise where the terms of cost are not the same for both unless for some very sound reason subsidization is clearly in the national interest.

"At our present stage of development, for example, I think it is quite inappropriate for the government to maintain electric generating, transmission and distribution facilities. At one time, perhaps, there may have been some justification for this; but conditions have clearly changed. Since monopoly conditions exist, government regulation can perhaps be justified on the basis of precedent. However, I think it can be reasonably argued that even this is quite unrealistic in modern U. S. society.

"At some point in our economic evolution the concept of economic statesmanship will become ideology. I believe this time is much closer than many people realize. We will do far better in the long run to rely on business managers rather than government to balance diverse economic interests."

Banker Herbert Prochnow points out: "The historical record indicates that the role of government will grow larger, not smaller. But we can meet this challenge. We need not thoughtlessly turn over the management of the economy to an all-powerful state. We need to examine constantly and critically the role of government.

Businessman—social revolutionist

"In an age of science, technology and automation, it is not government, but modern, private industry which is the major instrument for social and economic enrichment of man and for his personal emancipation from drudgery, poverty and insecurity. Modern capitalism is doing every day what communism

only talks of doing. The great social revolutionists of our time are American businessmen creating wealth for the masses."

Regarding the social contribution of business, General Electric Co. Chairman Gerald L. Phillippe declares:

"One of the most overlooked advantages of the free market, from a social standpoint, is the market's function as guardian of minority rights. When a minority as big as 49 per cent loses a political election, it must accept the choice of the majority. But if a minority does not choose the same model car as the majority, it is in no way compelled to accept the model selected by the majority. It has many other choices. Business has found ways to serve

One multibillion federal program which has enlisted business support has failed in its main objectives. The reason why: the program, by and large, is contrary to the facts of economic life. It is federal urban renewal. See page 31, "The Truth About Urban Renewal"

minority needs, personal values, at a profit—and from this everyone benefits."

Allan B. Kline, long-time livestock and feed grain producer and former president of the American Farm Bureau Federation, believes that no responsibility of government is more essential than maintaining a sound dollar.

"We have an inflationary bias," he tells NATION'S BUSINESS, "evidenced by rising wages, prices of raw materials and costs in general, and emphasized by continuing balance-of-payment difficulties.

"Fiscal discipline is a must. It is time to curb the expansion of government programs paid for with new money, regardless of their seeming political appeal.

"Herbert Hoover, on his ninetieth birthday, remarked that each time he returned to America from other countries, he was struck by the extraordinary productiveness of our

people. It was his conclusion that we produced more because we were more free.

"Certainly no device of control, coercion or intervention by government has been able to equal competition and the market in facilitating production and distribution of goods and services.

"If the basic principles of self-government and a free economy are to continue to be ours, we shall have successfully to manage the political forces pulling us in the opposite direction."

Regarding his own industry, Gulf Oil Corp.'s chairman of the board, W. K. Whiteford, comments that the oil industry for the past eight years has faced the problem of oil import controls:

"I believe that in view of the present world surplus of oil, import controls on crude petroleum are necessary now and for an undeterminable time in the future to help maintain a strong domestic oil industry, but I also believe that provision should be made to allow crude petroleum from friendly foreign nations to share in the growth of U. S. petroleum demand. This is necessary to keep these nations and their resources oriented to the free world and to provide for a refining, transportation and distribution system which will meet the needs of domestic demand in an emergency and in the more distant future when domestic supply might be inadequate. The over-all level of allowable imports as established by the Secretary of the Interior has in my opinion reasonably well accomplished these objectives.

"However, I am seriously concerned with the way in which allocation of quotas among companies has been made. The position of the historical importer, who had invested in foreign crude sources and the necessary transportation and refining facilities efficiently to utilize foreign crude, has steadily declined.

"I have never seen any justice in a system that awards quotas to firms with no foreign production and no domestic refinery that could economically utilize foreign crude and allows them to trade this quota for domestic crude at a handsome profit.

Neither do I believe it right to grant quotas to inoperative or nonexistent refineries. I consider both of these practices as a subsidy of less efficient and less progressive firms by the more efficient and aggressive and believe it a strange and dangerous practice to be sponsored
(continued on page 82)

WHEN INFLATION RUNS WILD

Here's how national policies of government spending, deficits and economic controls destroy buying power



TAKE A COUNTRY that:

- ▶ Continuously gives huge subsidies to consumers.
- ▶ Legislates large increases in wages and fringe costs.
- ▶ Allows enormous government deficits.
- ▶ Has official corruption on a grand scale.
- ▶ Speeds up the money-printing presses.
- ▶ Harshly regulates its utility industries.

And you have an example of galloping inflation.

This has happened in one of our neighboring countries—Brazil, a nation with 80 million people and a land area as large as the United States, where inflation in the past year probably has exceeded 100 per cent. (The cost of living increased 13 times over since 1958.)

This has not been brought on by war or natural catastrophe but by public policies which have stopped the growth of people's income and which nearly led to a communist takeover.

Americans these days seem little alarmed by stories of such economic devastation and by what it does to a nation and its moral fiber. None of Brazil's problems or policies is likely to prevail here, at least to the same degree.

But there are lessons to be learned from the errors of others and from the prodigious efforts of Brazil's new government to set its house in order.

Funny money replaces coins

One of the first things the visitor notices in Brazil is the absence of coins. The reason is simple. With rapidly rising prices and consequent diminishing buying power of the cruzeiro, the brass and silver coins in circulation became more valuable for their metal content than for their purchasing power and were promptly melted. Cheaper aluminum coins minted to replace them in turn soon became worth melting for their metal content.

The denominations of most of these coins would now be the equivalent of anywhere from one thousandth to one tenth of a cent—hardly worth loading down one's pockets.

Not only have all coins disappeared, but small denomination paper money is seldom used. Even five-cruzeiro notes, which are worth about three tenths of a penny, are fairly rare. Those still found are old and torn; no more in these lower denominations are being printed.

The visitor will also learn that he does not always get the exact change for some of his purchases; nor is he expected to pay the exact amount listed. For example, in purchasing 22 cruzeiros worth of stamps—which until recently were enough to send a postcard air-mail to the United States—20 cruzeiros might be accepted or, conversely, one might receive 80 cruzeiros worth of change for a hundred-cruzeiro note.

Considering that 100 cruzeiros are worth about six cents, it is not surprising that salespeople accept underpayments of a few cruzeiros or give excess change in similar amounts.

Billfolds are obsolete

Another early discovery of a visitor to Brazil is that pocketbooks are obsolete. Until a few months ago the largest note in circulation was 1,000 cruzeiros, which at one time represented more than \$100 (U. S.) but currently is worth about 60 cents.

PHOTOS: P. MUNIZ—BLACK STAR



Customers, with no reason to save, often withdraw their funds only days after deposit in this Rio bank.

The traveler cannot cram an ordinary billfold with much more than \$10 worth of currency. To carry sizable amounts of cash he literally must stuff a briefcase or a plain paper bag.

Some 5,000-cruzeiro bills (worth around \$3) are being printed but these are still scarce and much in demand because they permit carrying a somewhat larger amount of cash in a more compact package. Just counting change is a time-consuming operation employing millions of man-hours every month.

Just as coins are out, so are coin-operated machines. Taxi meters are a problem. In some the highest amount which can be registered is not sufficient for a long ride. As prices rise and taxi rates are adjusted accordingly, cab drivers receive printed cards which indicate the calculations to be made from the meter readings.

The tourist may be surprised to find large price differences for the same item in different stores. The resident, however, knows that identical items in the same store may be listed at widely different prices; one item may be half the price of another. The reason:

As goods come into stock they are priced in accordance with their cost at the time. A few weeks later wholesale prices may be up 20 per cent and new stock coming in is listed at a substantially higher price. The rate of inflation is so rapid that many store managements do not think it worth their while to reprice all their items; they prefer to keep small stocks and leave the items as originally priced until sold. The buyer may therefore obtain a bargain by shopping around.

Government efforts at retail price control—on meat

Dr. Charles T. Stewart, Jr., the author, has just returned from South America where he conducted research on inflation in Brazil. He is research professor of economics at George Washington University.

INFLATION

continued

and sugar, for instance—collapsed quickly when stores almost overnight ceased to stock items which they feared could be sold only at a loss. The legal interest rate ceiling of 12 per cent a year is meaningless. Violation is not direct but via subterfuge—adding on extra charges, not listed as interest, that nevertheless boost the cost of borrowing.

How insurance is sold

With substantial and unpredictable inflation there can be no life insurance business as we know it. In fact, there is no market for any kind of long-term insurance which depends upon the stability in the value of a policy for years ahead. Individuals who wish to protect their families may take out a heavy accident insurance policy a few months at a time. As one policy expires a new policy with higher premiums and a higher cruzeiro total is taken out.

It might seem that under these circumstances little money would be deposited in banks, which pay six per cent a year, whereas the loss in the purchasing power of money recently has been higher than that per month.

Nevertheless, some individuals put their savings in bank accounts because they are unaware of the impact of inflation. More, however, do so rather than to hold amounts in cash, on which there is no interest, in the anticipation of shortly investing the funds more productively.

Often considerable time elapses before these funds are invested; meanwhile, a substantial share of their value evaporates. There is incentive to keep checking account balances as small as possible, to delay payments as long as possible, to speed up receipts and to spend these receipts before they decline in purchasing power.

Tax evasion

It is impossible to raise the salaries of public employees to keep pace with inflation. Instead, many government workers, and most teachers, take other jobs and collect two or more paychecks. They get full-time government pay for part-time work.

Rapid inflation also promotes tax evasion. Even if the taxpayer is brought to heel some years later, by then the tax due, even with penalty, is a fraction of the original burden. Tax evasion in turn increases gov-

ernment deficits and in some cases increases tax rates, which may encourage further evasion and inflation in a vicious spiral.

Indicating the magnitude of the problem, 23 revenue agents were arrested this past August in São Paulo, which has one of the best administrations in Brazil, and charged with corruption. The following week voluntary tax payments increased 75 per cent. Now that corrupt officials are being fired, careers are being wrecked and some of the worst offenders are ending up in jail, tax evasion is on the wane.

Whatever the problems of the consumer in facing inflation, they are dwarfed by those confronting the producer. With costs increasing rapidly and unpredictably, the producer finds it hazardous to make firm price commitments on advance orders.

Unpredictable fluctuations in the exchange rate, added to these other



Inflation causes Brazil to drop one-cruzeiro notes; 20 won't buy coffee.

problems, make estimates of future costs almost impossible. Many export opportunities have been turned down because they involve commitments at firm dollar prices many months in advance of delivery.

The producer can do little to minimize his cost uncertainties by purchasing large amounts ahead of need. The lack of bank credit except for short periods, and the very high cost of such short-term credit, forbid tying up too much in large inventories.

Minimum wage causes inflation

The major cost item, namely labor, is tied to statutory minimum wages; many other cost items are linked by escalator agreements to minimum wages.

Such minimums, which are changed periodically by the federal government and which vary not only from state to state but even in the same state between the capital city and the interior, directly influence the pay of a substantial proportion of workers. Changes in pay may be of the order of 50 or even 100 per cent.

The obstacles which inflation

creates for longer-term cost estimates and pricing policy have their impact also on investment. It is difficult to determine what the productivity of new investment will be, or even what the size of markets themselves will be by the time investments are completed.

The unavailability of bank credit of more than 120 days and the four to six per cent monthly rates of interest strongly discourage investment with borrowed funds. Equity capital is very scarce, partly because of the tremendous uncertainties multiplied by inflation and partly because of the lack of legal protection for minority stockholders.

Perhaps the most distorting effects of inflation have been in transport, communications and power, services provided either by government or utilities whose rates are subject to government regulation. The process of rate adjustment to cost increases is often slow. When the impact of inflation on costs is added to political pressures to keep consumer prices low, the adjustment request becomes obsolete long before it is granted. New investment and even maintenance suffer in consequence. The firm has neither the profits nor the incentives to invest.

Railroads have been caught in this vicious spiral for many years. As a result the major role in general transport has been assumed by buses and trucks. This is true even though railroad rates are extremely low, often below operating costs. But the consequent lack of investment and inadequate maintenance make freight deliveries so unreliable that more expensive truck shipment is almost universally preferred.

Even in the case of buses, rate regulation in some cases discourages development of new routes and improvement of service. Coastal shipping plays a minimal role in freight movement because of excessive loading and unloading costs and delays which are largely the result of the labor situation in the major ports.

Military regulates air rates

Air transport, which is carrying an increasing share of freight as well as passengers, is in a more favorable position, essentially because rate regulation is done by the Air Force which is more prompt in handling requests for adjustments than other regulatory agencies. The difference in rate adjustment is shown by the fact that air travel from Porto Alegre to São Paulo is approximately five times as expensive as the bus fare.

The situation in transport is duplicated in communications. Postal

rates are preposterously low and postal service is absurdly unreliable and slow. Many letters never reach their destination. As a result various substitutes for postal service have been developed. In the major urban centers most firms maintain messenger boys to pick up and deliver messages and packages in person rather than depending upon the postal service.

Telephone and telegraph services are equally inadequate. Messengers substitute for urban telephone communications as well as for mail. The capacity of urban telephone systems is overtaxed. It is very often difficult to obtain a line; interurban telephone calls in particular may take hours to complete. Telephone rates, of course, are extremely low.

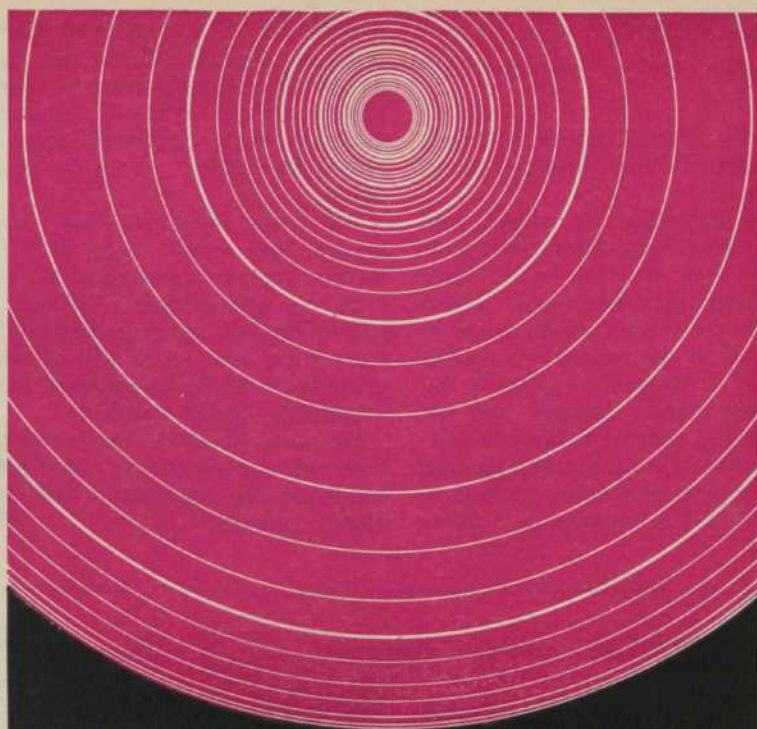
The same situation prevails in the national telegraph system. The rates for telegrams are far below their true cost. Service is completely unreliable. A telegram between São Paulo and Rio often takes two weeks to arrive. Under such conditions, of course, no urgent messages can be sent through the national telegraph and a number of private companies have set up their own networks which provide prompt service at many times the cost of the national telegraph.

In electric power, the process of rate adjustment has improved and is now handled quite promptly. Still, the years of inflation with regulated rates and the tendency to set rates to provide little profit—since the power companies were usually foreign-owned—have left their mark in terms of inadequate capacity and lack of incentives to increase capacity. Many firms have their own generators—often imported, operated on imported fuel and producing high-cost electricity—to insure against failures and shortages of power in the public distribution network.

Low utility rates encourage consumption, aggravate shortages and worsen service. Where services to households are provided at a fixed fee irrespective of volume of consumption, as in the case of telephone service, additional consumption is free, further increasing excess demand. The substitutes which have developed to circumvent the shortages—captive power plants, private courier services, trucking in place of ship and rail—are in most cases higher in cost. Thus demand inflation and cost inflation reinforce each other.

What's being done

The new government of President Castello Branco is attempting the



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POINTERS FOR PROGRESS

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INFLATION

continued

politically difficult job of reversing the policies which brought about this mess.

Large subsidies on wheat and gasoline have been eliminated; postal rates and railroad tariffs have been raised to cover costs. These measures mean an immediate rise in prices but in the longer run should help put a damper on inflation by curtailing excess demand and by slashing the federal budget deficit.

Measures discriminating against foreign capital have been eliminated, leading to leftist charges of Yankee

domination. The number of government employees is being cut down by attrition. Besides revenue agents, many corrupt officials, including generals, state governors and national legislators, are being prosecuted.

All these measures hurt some groups and create enemies. The most unpopular measure of all, perhaps, is government restraint of wage increases; yet wage restraint is the critical test which will measure the success of the government in re-establishing price stability.

Brazilian leaders are convinced that inflation control is a necessary condition for resuming rapid economic growth. **END**

modify the federal laws which establish the balance of power in relations between employers and unions. Direct government intervention in particular disputes can only serve to weaken the incentives for responsible bargaining.

"The government can facilitate the workings of the market by reviewing all its economic policies to make sure that they do not unnecessarily impair the incentives for private efforts and private risk-taking. The opportunity to earn a profit on risky investment is the most basic of these incentives. The reduction in income taxes enacted last year and the Administration's efforts to halt the rise in federal spending are, therefore, important steps in the right direction.

"In general, I believe that the American people should be allowed to determine the allocation of economic resources through their purchases in open markets. Our complex system of excise taxation artificially raises the prices of some goods and thereby restricts their supply.

"I am pleased to note that excise tax reduction is on the agenda for this session of Congress and I hope that serious consideration will be given to eliminating the discriminatory excise on automobiles which remains at the high level established to discourage automobile sales and production during the Korean War.

"On the other hand, some fields of endeavor require government aid because they are vital to the national welfare and are unlikely to attract adequate private investment. Education and basic research, for example, are important sources of many kinds of progress and they need government subsidy if the nation is to receive the maximum benefit from them.

"There are, of course, many other things that government can properly do to help our free economy perform better. To mention only two of them, government can encourage economic growth by helping to improve the mobility of resources, particularly human resources. And it must provide a reasonable amount of protection against the hardship and insecurity for some individuals that inevitably accompany economic progress.

"When government economic policies are wisely chosen and wisely and efficiently applied, when they work with rather than against market forces, when they are directed at the causes rather than the symptoms of economic problems, when they give due weight to the

FRANK TALK *continued from page 77*

sored by our government under the guise of national security."

As to the transportation industry, the Pennsylvania Railroad's Mr. Saunders comments: "Government regulation should be administered impartially, permitting each transportation mode to develop ways in which it could serve the economy most efficiently. The cooperative role of government already is being projected in encouragement of voluntary railroad mergers, which will help railroads, through their own efforts, to regain competitive strength."

Ford tells essential roles

Henry Ford II had these comments:

"There are some who say, in answer to almost any economic problem, 'Let private enterprise solve it.' There are others who say, no matter what the problem, 'Let government solve it.'

"Neither of these extreme responses can serve us well as general rules of economic policy. There are some things that private enterprise cannot do, some things that government cannot do and some things that one cannot do as well as the other. Each has an essential role in a free and prosperous economy.

"As even the Russians are discovering, the best way to make an economy respond efficiently to consumer wants is to rely on the forces of profit-seeking, competition, and supply and demand in the market place.

"A free-market economy does not work perfectly. It needs assistance of various kinds from government. But it works remarkably well, and

this suggests that government can be most helpful by cooperating with, rather than opposing, the forces of the market.

"This means, first of all, that the federal government should seek to preserve, protect and foster competition—by improving its application of the antitrust laws, by working for the reduction of tariffs and other barriers to trade, by refraining from unnecessary subsidies and controls and by taking other appropriate steps.

"It means that general tools of policy are greatly to be preferred to specific interference with the operation of supply and demand in the market place. For example, fiscal and monetary policies are the best tools the government has for achieving steady economic growth and high employment without inflation. These are the tools that should be used in preference to direct efforts to influence specific prices, wages and investments.

"In this connection, it is obvious that we cannot have a large and permanent deficit in the federal budget or too rapid an increase in the money supply without bringing on disastrous inflation. But it is equally obvious that we cannot have a budget that is always balanced or too slow an increase in the money supply without disastrous recessions. Sound policy lies somewhere between these extremes.

"Another example of the kind of general approach that is preferable in economic policy is in the field of labor relations. If collective bargaining leads to excessive strife and dangerously large increases in labor costs, then the best remedy is to

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FRANK TALK

continued

unintended results as well as the direct goals of any given measure, when they expand rather than contract the opportunities of free men—when such conditions are met, then we can be sure our government is assuming its proper economic role.”

The dollar and initiative

Texaco's Augustus Long outlines specifically where and how the government could play the most effective part in the economy:

“Our monetary and fiscal policy should be directed towards the maintenance of a stable price level and a sound currency. This requires balancing the United States budget during periods of strong economic expansion, and eliminating the deficit in our international balance of payments.

“Loss of confidence in this nation's financial integrity could weaken the American dollar and lead to further gold losses and possible devaluation of the currency. This would have serious consequences at home as well as abroad, in view of the fact that the dollar is the keystone of the free world's monetary system. In taking action to correct our balance of payments, however, the government should be careful not to restrict additional direct foreign private investments which contribute so substantially to the inflow of funds from abroad.

“The maintenance and enlargement of the scope of private business in our economy require careful control over government expenditures in order to permit further tax reductions and thus to provide additional incentives for investment by the private sector of our economy.

“Enactment of the proposed reduction in federal excise taxes would be a step in the right direction. In my opinion, however, there is no legitimate reason to support the exclusion of the excise tax on gasoline from any such reduction. This tax, accounting for more than \$6 billion on the federal, state and local levels, is a heavy burden on consumers and has tended to restrict the growth of the oil industry.

“In other areas, the government has further restricted the free action of the market place which, in the past, has done so much to foster competition and progress.

“Some control over crude oil imports may be justified on grounds of national security, but the present system is discriminatory and should

be put on a more equitable basis. Controls over residual fuel imports are unnecessary, resulting in higher costs to consumers and restriction on competition with other fuels.

“Government fixing of natural gas prices has wrapped a risk enterprise in the strait jacket of a nonrisk utility.

“If allowed to continue, such price curbs will threaten the orderly development of the nation's gas reserves and endanger the long-term flow of gas to consumers.

URBAN RENEWAL *continued from page 31*

cause a further spread of what these people call blight.

I would add that I have not seen any evidence of a city being revitalized by federal urban renewal.

Are slums growing faster than we are able to destroy them?

This is a statement that is often made today. Fortunately, the official statistics at the Bureau of the Census do not back this up. In over-all terms the quality of housing in the United States has increased at a fantastic rate, especially in recent years.

It may be true that one area of a city will decline slightly while other areas of the city are improving. But, over-all, slums are not growing faster than we are destroying them or improving the housing within them.

Should a businessman who is interested in improving the downtown area of his city favor federal urban renewal?

In my judgment, a businessman who is sincerely interested in furthering the improvement of the downtown area and the rest of his city should stay completely away from the federal urban renewal program. He should not lend his time, his energy, his prestige or his money to it.

However, I think that often some businessmen are seduced by the possibility of finding a quick, simple solution, such as that which seems to be offered by the program. Often the prospect of replacing old, ugly slums with brand-new buildings seems so appealing that people don't stop to think of what is involved in the process. They are so concerned with the goals that they lose sight of the means.

You have to be very careful about the means which you employ in at-

tempting to gain your ends, particularly in the process of urban renewal. Take a close look at the consequences of federal urban renewal—both social and economic—and then evaluate it.

“We must continue to place our trust in those principles upon which this great nation was founded, and work to enlarge—not diminish—the area of private individual initiative.”

END

What are the costs of federal urban renewal?

Costs are very high. The federal government has spent billions of dollars so far. The indications are that billions more of the taxpayers' money will be spent in the future.

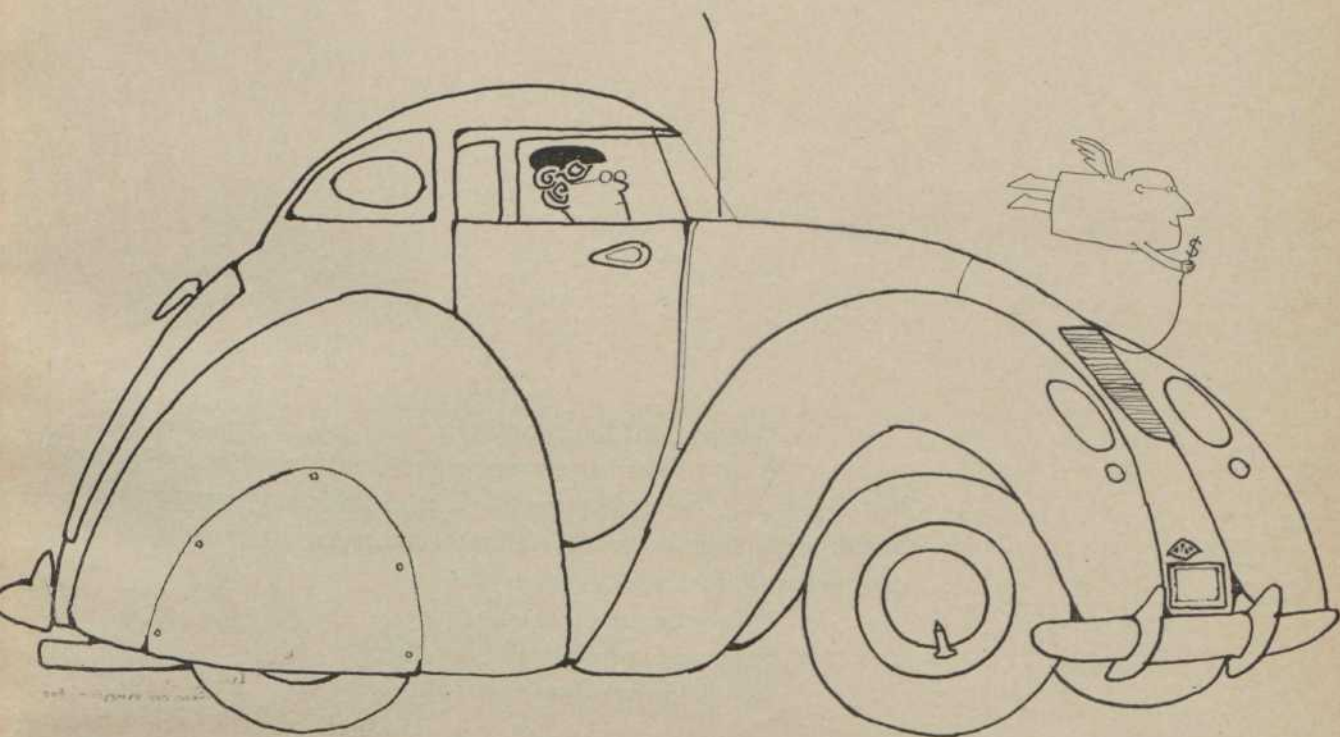
A loss of freedom has resulted because the urban renewal program signaled a significant interpretation of the law of eminent domain. Today it is possible for a government agency to seize the private property of an individual, destroy it and then sell the cleared land to some other individual in the name of what is called the public interest.

In addition, urban renewal consumes a tremendous amount of time. I estimate that the typical project could easily take 10 or 12 years from the start of planning to the completion of the new construction.

What are the results in return for these costs?

The net results are that it has actually aggravated the original problem that it set out to solve. Among the consequences is the fact that more than 600,000 people have been forcibly evicted from their homes and about four times as many homes have been destroyed as have been built. Most of the homes that were destroyed were low-rent, and most of the homes that were built were high-rent. About two thirds of the people that have been forced to move are Negroes, Puerto Ricans or other nonwhite groups.

There also are indications that



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But how to produce the good life?

This is the question of our times.

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Should we call upon an overgrowing central government to produce the good life for the American people? Should we travel down the road to all-out governmental spending and controllism?

OR, to produce the good life, should we—in the American tradition—exercise our citizenship *responsibility* and get busy and do the job ourselves?

The American Tradition

The American tradition puts the government in second place, and the individual citizen in first place.

The American tradition makes the government the servant of the people, and not the master.

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The business community, as represented by the Chamber of Commerce of the United States, is committed to the American tradition.



The business community is forward-looking. It is committed to competition, to research and development, to progress.

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URBAN RENEWAL

continued

the over-all tax base of the United States has been reduced by the operations of urban renewal.

In the area of housing, therefore, the program has actually worsened the situation for those who are worse off, particularly low-income minority groups. And it has slowly increased the supply of high-quality housing for high-income groups.

How does this compare with what private enterprise has done?

For the decade during which we have accurate statistics, 1950 to 1960, the evidence compiled by the Bureau of the Census shows clearly that private enterprise made what can only be described as fantastic gains in housing. The quality increased from 63 per cent standard housing in 1950 to 81 per cent in 1960. The amount of really bad, dilapidated housing has declined to a very low level of approximately five per cent.

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The absolute amount of standard homes increased from about 29 million to 47 million, a net increase of 18 million homes. About 12 million were due primarily to new construction; about six million resulted from the rehabilitation of previously substandard units.

When you compare this with the federal urban renewal program, the contrast is dramatic. On the private enterprise side you have a net increase of 18 million units. On the government side you actually have a decrease in the amount of housing.

You say that the federal program has destroyed more homes than it has built. Is this likely to continue?

If the program retains its present characteristics and the federal government spends more money on it, then as long as the program is expanding it will very likely continue to destroy more homes than it builds.

Because the homes that are destroyed are low-rent homes, for the most part, whereas the homes that are built are largely middle or high-rent homes, I don't see any indication at all that the renewal program will make any significant improvement in the housing of low-income groups.

Does the federal program play an important role in the national economy and in the economy of the cities where projects are under way?

No. The urban renewal program plays a very insignificant role in the economy of the United States. For example, by 1961 it had accounted for less than two tenths of one per cent of all the new construction that had gone up in the United States.

As far as cities go, the federal program also plays an insignificant role in their economic activity. As of the same date, only 1.3 per cent of the new construction was within urban areas.

Why hasn't the program resulted in more new construction?

The basic reason is that the main thrust of the program goes against the workings of the private market place. It moves into areas of the cities which are run down because people no longer value these areas as highly as they do other parts.

Urban renewal depends upon the businessman to come in and construct new buildings. The businessman, in general, has been quite skeptical about the potential profit which would result from construction in these areas, and this has

tended to slow down the progress of urban renewal construction. This hesitancy has been confirmed by the fact that a high percentage of the urban renewal mortgages are delinquent.

Then the program has not proved profitable for private developers?

No. There may be some isolated cases where it has been profitable, but the developers that I have talked to indicated that they have not made significant amounts of money out of the program.

As a matter of fact, some of the largest area developers—for example, Roger Stevens and William Zeckendorf—have gradually eased out of the program. More and more you are finding large corporations attempting to move in. These companies feel that they can take a long-range view, they will be able to make it work. However, even these companies are now experiencing difficulty with the program.

What sort of difficulty?

They are running into the same problems that the original entrepreneurs ran into. In the federal program, the private developer cannot proceed without considering the desires of the local renewal agency, the planners and, if he is going to use FHA insurance and Federal National Mortgage Association financing, he must also consider the requirements that they impose on him. He encounters construction delays, a variety of unanticipated costs, and he has a difficult time renting the new buildings.

Is the basic premise of federal urban renewal, which was established to meet conditions before 1950, still valid today?

The basic premise on which the program was started was that there was a severe housing shortage, that slums were spreading throughout the cities and that private enterprise could not handle this problem and, therefore, it was necessary for the government to intervene and do something about it.

This premise was dubious in 1950, and it is more so today. The experience that we have had since 1950 has shown conclusively that only private enterprise can solve these problems, and that the federal government has actually worsened the situation. Today there is no physical housing shortage as such. The vacancy rate is approximately nine per cent throughout the United States. So the problem is not a physical housing shortage, but rather that a certain number of peo-

ple either cannot afford good housing or do not want to spend enough of their income to get it.

Similarly, as to the contention that slums are spreading throughout the cities of the United States, the results of the last 10 or 15 years have shown that this is not true. And finally, the basic premise that the federal government must step in, I think, has been shown to be false if you look at the record carefully, compare what private businessmen have done with what the federal government has done, and judge.

Who pays the cost of the federal program?

The total cost of urban renewal has two main components. The first is getting the project area ready for private developers to move in, and the second is the cost of new construction.

As far as the total cost of the program goes, it has been widely assumed that the role of the government is only to provide seed money and that private enterprise will supply the bulk of the investment. In fact, however, a significant part of the cost is absorbed by the government, particularly in the purchase and clearing of the land.

When it comes to the new investment component we find that approximately 30 per cent of the new construction is government construction and that, of the 70 per cent that is private, a significant part is actually financed by an agency of the federal government, the Federal National Mortgage Association.

I have estimated that after about 12 years of operation of the program approximately 21 per cent of the money came directly from government sources and about 27 per cent in addition was loaned by government sources. So what you have here is approximately a one-to-one ratio between public and private money—not the one-to-six or seven ratio that is often talked about.

How much money will eventually be needed if the program continues?

The amounts of money needed for future operation of the program depend greatly on its pattern and direction. For example, if it were expanded to meet the desires of some people, it could conceivably cost as much as one or two trillion dollars in the next 10 or 15 years. This would embrace a very comprehensive rebuilding program for the whole United States.

In more practical terms, if the

program continues to move ahead as it has, it might be reasonable to expect that somewhere between 10 to 15 billion dollars might be spent on it by, say, 1970. This is probably the most nebulous area of urban renewal. It is just impossible to give any good, accurate statement. Let's just say that it would be very large.

You mentioned displacement of people from their homes by urban renewal projects. What has happened to them? How many people can we expect to be displaced?

Approximately four million people will be displaced from their homes by 1970, according to an estimate made by William Slayton, commissioner of the Urban Renewal Administration. In other words, one out of every 50 people living in the United States.

Private studies indicate that the people displaced from their homes often move into housing that is as bad as or worse than the original housing they were in. On top of this, they pay slightly higher rents. So their conditions are not improved at all.

Does urban renewal increase a city's tax revenues as slums are replaced with newer buildings?

This is a complex question, and it cannot be answered in the simple terms that it usually is. People say: "Look, we have old buildings in this slum area and, if we tear them down and put up new buildings, these new buildings will be worth much more money and our taxes will increase."

They are right on one point: The valuation of the new buildings will almost always be higher than the

valuation of the old buildings. But there are many factors which tend to militate against any increase in tax revenue.

The first is the tax loss which occurs during the time that the destroyed buildings are down. Taxes are not paid on nonexistent buildings. This is a loss which must be made up later.

The second point is that a large number of the areas of a city which are currently slums may have enjoyed an increase in their valuation over time if federal urban renewal had not come in and if private enterprise had started to rehabilitate the area on its own.

Third, the new construction that goes up in an urban renewal area cannot be considered all net new construction accruing to the city. Private developers will put up new buildings in an urban renewal area only if they feel there is a reasonable demand. If the demand for this type of construction exists within the city, and it is strong, it is very likely that private enterprise would have put these buildings up somewhere else in the city.

Another effect is that, as new construction goes up in the urban renewal area, the people that move into it may come from other parts of the city. You have to consider what effect this will have on the valuation of older buildings in other sections.

A fifth factor is that cities have found it difficult to attract private developers into urban renewal areas and, in many cases, have been forced to give tax abatements in order to induce them to come in.

Is rehabilitation of existing homes, which is now being emphasized by

How are facts gathered on a program as complex and far-reaching as federal urban renewal?

Up to now, it has been difficult to evaluate the program because there was little data available and complete, says Researcher Martin Anderson. No one had attempted to consolidate the parts of the program into one total picture.

Most of the material in "The Federal Bulldozer" is based on facts from official publications of the Housing and Home Finance Agency and its constituent units, covering every urban renewal project in operation as of 1961. This was supplemented with previously unpublished statistics from the files of the Urban Renewal Administration.

The research also included interviews with government officials, real estate developers and others directly involved in the program—in general, confirming the story told by the aggregate statistics.

URBAN RENEWAL

continued

the Urban Renewal Administration, the solution to the problem rather than tearing down old buildings and constructing new ones?

No. I don't believe that rehabilitation under government auspices is the solution. The practical consequences of this approach are essentially the same as redevelopment.

If a person living in a rehabilitation area under the program cannot afford to fix up his home or does not desire to fix it up in a way which the local renewal officials deem appropriate, then his property can be taken away from him in the same way that the redevelopment phase will take it from him.

The process itself, while less expensive than redevelopment, is still very expensive when you consider the amount of money necessary to repair some of these homes.

Where do you think the federal program will lead if it is continued?

If the program continues to expand at the same rate and retains its present characteristics, I think that within a relatively short period of time, say five to 10 years, you will have practically every city in the United States under an urban renewal plan and the federal government will be spending billions of dollars a year on urban renewal. You will be evicting hundreds of thousands of people a year, at least.

It is entirely conceivable that entire cities will become urban renewal areas. There has been a general tendency for the urban renewal program to enlarge both the scope and the depth of its operation. Originally starting out on a project basis, it has been expanded to a concept called the general neighborhood renewal plan, which would involve two or more projects tied into one cohesive plan. This has been further expanded into something called the community renewal program which embraces the entire community.

So it is not unlikely, if the program continues to expand as it is now, that every major city and most of the smaller ones will eventually have a city plan operated by their local renewal authority.

Are there any alternatives?

Yes, there are. One might be to modify the program to eliminate some of the less desirable aspects that it has today.

The net result of all the actions

which could be taken to modify the program, however, would be to slow it down to perhaps a standstill. This illustrates clearly what happens when you attempt to modify an inherently unworkable program.

What do you suggest?

In my judgment, the most reasonable alternative would be simply to repeal the urban renewal program. This could be accomplished by not authorizing any new projects. The projects currently in operation could be carried through to completion if the individual cities desired to do so.

The results of this action would not be anywhere near as calamitous as many people seem to think today. The concrete evidence of what private enterprise has done on its own—and how overwhelmingly great this has been compared to what the federal program has accomplished—shows clearly that the net results of abolishing the program would be positive, not negative. Millions of people would not be required to move from their homes. Billions of dollars of the taxpayers' money would be saved. There would probably be a net increase in the housing available, especially at low rents, because urban renewal would not be destroying homes in this classification.

Can our system of private enterprise handle the job of renewing the sections of our cities which need it?

I would say absolutely, yes. The concrete evidence of the past 10 or 15 years has demonstrated this dramatically.

The quality of housing in the United States has improved by a significant degree, and this has been especially true in the cities. For example, if you just take a look at our 13 largest cities, you will find that fully 90 percent of the housing today is considered standard. As a matter of fact most of the bad housing in the United States today lies outside of central cities.

This tremendous standard of living has been achieved primarily by the free enterprise system of individual businessmen responding to the desires of other individuals, building for their own profit and satisfying both parties. **END**

REPRINTS of "The Truth About Urban Renewal" may be obtained for 30 cents a copy, \$14 per 100, or \$120 per 1,000 postpaid from Nation's Business, 1615 H St., N. W., Washington, D. C. 20006. Please enclose remittance with order.

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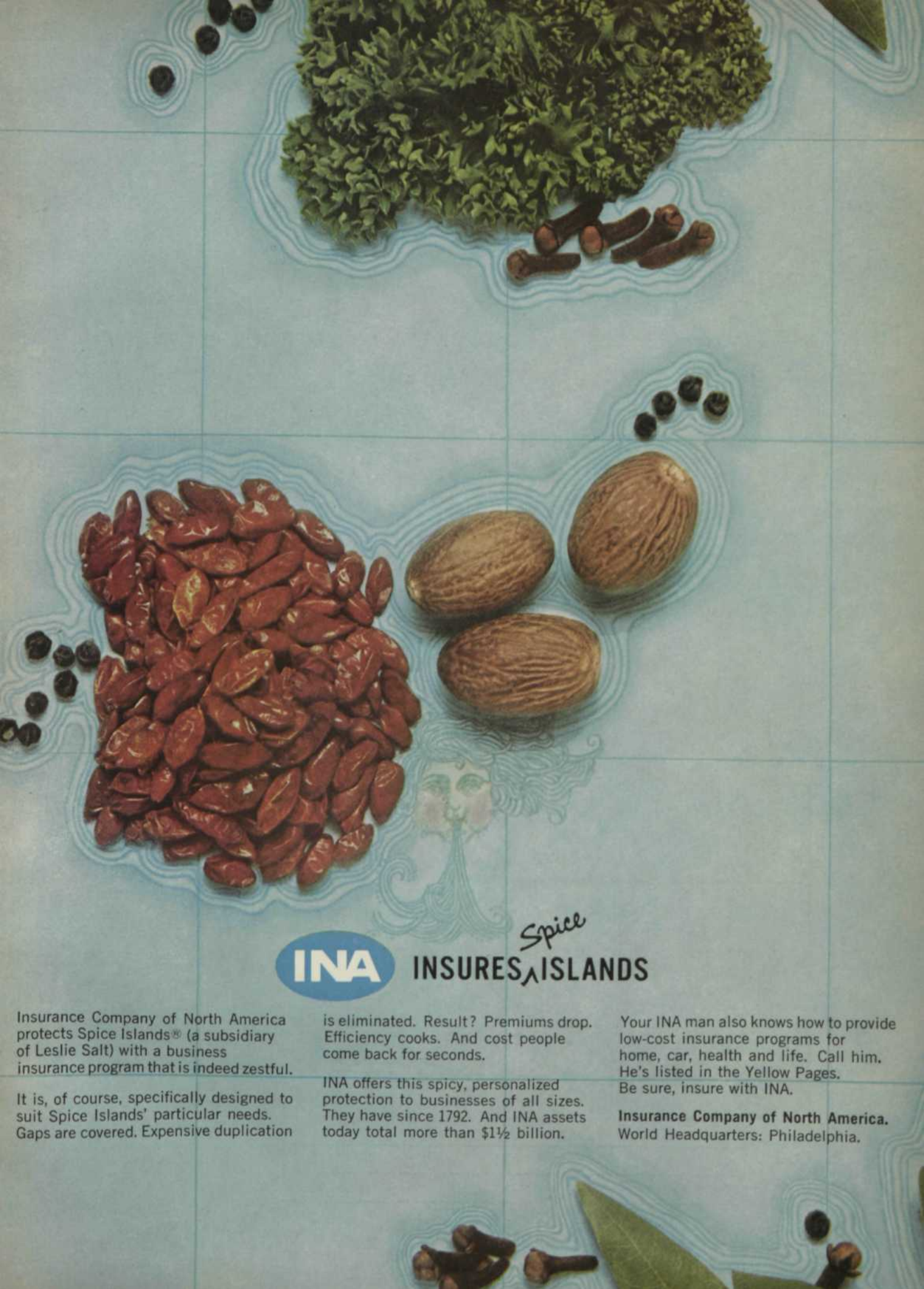
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Nation's Business • January 1965



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